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Venturex Resources Limited (VXR)

July 2016

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Note: This report is based on information provided by Venturex as at 15 July 2016

Investment Profile	
Share Price (\$) as at 15 July 2016	\$0.009/sh
Issue Capital:	
Ordinary Shares (M)	1746.2
Options (M)	0.0
Performance Shares	26.4
Fully Diluted (M)	1772.6
Market Capitalisation (\$M)	15.7
12 month L/H (\$)	0.003/0.010

Board and Management	
Directors:	
Tony Kiernan (Non-Executive Chairman)	
John Nitschke (Managing Director)	
Anthony Reilly (Non-Executive Director)	
Darren Stralow (Non-Executive Director)	
Management	
Trevor Hart (Company Secretary and CFO)	

Major Shareholders	
Regent Pacific Group Limited	33.4%
Northern Star Resources Limited	12.9%
Henghou Industries (Hong Kong) Limited	4.3%
Top 20 Shareholders	76.3%

IMPRESSIVE BASE METAL PORTFOLIO BEING DERISKED

Venturex owns 100% of two major copper zinc assets in the Pilbara Region of Western Australia. Each property has highly prospective projects on approved mining leases with no native title issues, together with extensive surrounding land holdings. Sulphur Springs has been completed to Definitive Feasibility Stage and the mine has been approved as an underground operation, The Company has identified the opportunity to improve the economics of this project by open cut mining, particularly of a high grade supergene cap. Whim Creek/Mons Cupri is the other operational centre, with an existing SXEW operation from which Venturex receives a profits royalty sufficient to cover corporate costs, and provide funding for a small exploration and evaluation effort. The board and management are adding value, and at an accelerating pace.

KEY POINTS

- ◆ **Management de-risking of asset base major driver of share price appreciation** Using the company's existing database, and at very little cost to shareholders, management continue to optimize the assets, generating considerable value. Sulphur Springs is considerably de-risked by initially mining by open cut, by reducing initial capex, and using a lower cost underground mining technique, and by the identification of an early cash flow opportunity (ie a high grade supergene cap to the ore body).
- ◆ **A\$46M to A\$58M of after tax NPV for the 100% owned Supergene Project.** This project has an estimated A\$71M pre-production capex, which we believe could be optimized down to around A\$35M, with the balance spread over the mine life.
- ◆ **A\$37M to A\$124M of after tax NPV for the 100% owned Sulphur Springs Sulphide Project,** which has substantial leverage to the zinc price. Every 10c/lb in the US\$ of the zinc price adds A\$31M to the NPV. Zinc prices have been appreciating over the last six months from US\$0.73/lb to US\$1.00/lb on major supply reductions.
- ◆ **A\$51M to A\$82M of after Tax NPV for the 100% owned Whim Creek Sulphide Project.** This has been in the bottom draw for the last 5 years since the acquisition of Sulphur Springs, but will be re-energized by a new exploration effort.
- ◆ **Blackrock SXEW pays the bills** - Venturex provided guidance that FY17 pre-tax income from Blackrock was expected to be around A\$1.6M on 1200t of copper cathode (Venturex' share). The company has cash flow to underwrite corporate overheads for the next two years at least, given production guidance of 1000t copper (Venturex' share) for FY18.
- ◆ **Exploration ramping up** – An IP survey has just identified three high priority copper in the Whim Creek region, and a drilling program is planned for the September 2016 quarter.
- ◆ **Free exposure to Lithium exploration** – Venturex has signed an MOU to enter into a joint venture with MacArthur Minerals (TSX-V MMS) to explore Venturex ground for lithium, subject to due diligence.

VALUATION

Our valuation of Venturex is A\$60M, and our price target is A\$0.03/sh. While this target is unchanged from our last two reports, the confidence in achieving this target has grown considerable as management has de-risk the assets. The target price is the value of the all assets and liabilities at consensus (AUDUSD 0.78) risk adjusted to 45% of NPV, or is the value of the undiscounted NPV at consensus of the Supergene Project alone. It also reflects the A\$57M adjusted book value, plus unbooked tax assets of A\$12.4M. There is no additional value assumed for exploration upside on the Company's substantial land packages at both Sulphur Springs and Whim Creek. The company's projects are substantially leveraged to copper and zinc prices.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OVERVIEW: REASSESSING SULPHUR SPRINGS' OPTIONS

STRATEGIC PLAN

- ◆ Venturex management have a business plan built around three elements:
 - Extending and expanding cash flow from copper cathode production at Whim Creek
 - Generate low capex projects that are economic at current spot prices
 - Get Sulphur Springs to shovel ready status for the next copper zinc price cycle
- ◆ Venturex has leverage to 320Kt of copper and 920Kt of zinc in current resources. The resource base is in existing mining leases, within 144Km of Port Hedland, probably the largest commodity exporting port in the world. None of this is going to go away, and Venturex can afford to wait for the cycle, while continuing to optimize its development options. 55% of the metal is at Sulphur Springs.
- ◆ Within Sulphur Springs, management have recently identified a near surface supergene resource, which we believe is economic to develop at current spot prices on a stand alone basis, or as Stage 1 of a bigger project. It will require additional drilling, test work and approvals, which we estimate will cost A\$6M.
- ◆ If the Supergene Project has the size, metallurgy and costs that we expect, it could be developed for a pre-production cost of A\$35M to A\$70M, and would be bankable, either conventionally, or utilizing supplier and offtake funding. The cash flow from this asset could then provide the equity to unlock the value in the other assets.
- ◆ The company is also undertaking low cost exploration for zinc copper sulphide at the easy to access Whim Creek Project, where a concerted exploration program over the past six months at Mons Cupri has generated a new geological model for targeting mineralization. Detailed field mapping and a new high power IP survey has just identified high priority drill targets for extensions to the existing high grade zinc copper gold Resource at the Mons Cupri open pit, and a drilling program is planned for the September 2016 quarter.
- ◆ Venturex would also be a beneficiary of any success MacArthur Minerals has exploring for lithium on the VXR's leases, in the event the joint venture is finalized, at no cost to Venturex.

Financial Position

- ◆ Cash on hand at 30th June 2016 was A\$0.782M with planned expenditure in the September quarter was A\$0.695M (5B report). The Blackrock royalty should contribute cash in the quarter.
- ◆ The Blackrock cash flow is sufficient to sustain the company in its current form without a call on shareholders by covering administration costs, and provide near term earnings leverage to the copper price.

VALUATION; FIRST THE SULPHUR SPRINGS PROJECTS

- ◆ At current spot commodity prices and currencies, the Supergene Project is worth A\$26M. While at those prices, the Sulphur Springs Sulphide Project has a negative NPV, it becomes very valuable at higher prices, particularly at higher zinc prices, and therefore represents considerable option value.
- ◆ We use the consensus forecasts from Consensus Economics data, including the long term AUDUSD of 0.78, while the Purchasing Power Parity suggests the long term value should be closer to 0.73, hence we show the project NPVs on consensus metal prices at both exchange rates. We also show the valuation at the assumptions used by the company to calculate reserves, and an upside case.
- ◆ The upside case reflects the NPV valuation that the assets would reach at copper and zinc prices approaching the peak of the last pricing cycle (more discussion of this at the back of this note).
- ◆ In Figure 1, we show the building of value, starting with the Supergene only, then adding the Sulphur Springs Sulphide Reserves, then Inferred Resources, then Kangaroo Caves Inferred Resources. The Sulphide Springs Inferred Resource improves the NPV of the Project by around 12% across the various price scenarios, and the addition of Kangaroo Caves adds around 16%.

- ◆ The leverage to the zinc price is significant. At current spot prices for the other metals, a zinc price of US\$1.50/lb lifts the total project NPV to A\$199M, and at US\$2.00/lb, to A\$363M
- ◆ + US\$0.10/lb copper price rise increases total project NPV by A\$18M, and zinc, by A\$31M. +US\$100/t zinc price increase lift the project NPV by A\$14M.
- ◆ - 0.05 decrease in AUDUSD increases total project NPV at consensus metal prices by A\$12M.

Figure 1 Valuation of the Sulphur Springs Project including the Supergene Deposit and Kangaroo Caves

Scenario Assumptions					
	Spot 4 July 2016	Consensus A\$0.78	Consensus A\$ 0.73	Reserve Assumptions	Upside Scenario
Copper Price US\$/lb	2.22	2.78	2.78	3.04	4
Zinc US\$/lb	0.98	0.94	0.94	1.09	1.5
Lead US\$/lb	0.83	0.87	0.87	0.91	1
Silver US\$/oz	19.75	18.6	18.6	19	16
Gold US\$/oz	1341	1175	1175	1200	1300
AUDUSD	0.746	0.78	0.73	0.775	0.775
NPV at 8% Real					
Supergene Only	26.3	46.5	54.8	58.4	100.5
Above Plus Sulphide Reserve	5.7	58.3	110.8	141.6	387.9
Above Plus Sulphide Resource	9.5	66.4	124.2	157.3	427.4
Above Plus Kangaroo Caves	24.4	83.3	146.2	182.3	480.4

Source: IIR estimates

- ◆ The bottom line of Figure 1 equals Figure 2 Sulphur Springs Total. Figure 2 shows the Sulphur Springs assets, to which is added the value of the other mineral assets and corporate items to get the corporate valuation, which is then adjust for the estimated capital issue required to commit to the Supergene Project.

VALUATION: SECOND THE COMPANY

Figure 2 Contribution to total company valuation at various price scenarios

	Spot	Consensus A\$0.78	Consensus A\$0.73	Reserve As- sumption	Upside
Sulphur Springs Supergene	26.3	46.5	54.8	58.4	100.5
Sulphur Springs Sulphide	-1.9	36.7	91.3	123.9	379.9
Sulphur Springs Total	24.4	83.3	146.2	182.3	480.4
Whim Creek Sulphide	24.6	51.0	70.9	82.2	177.5
Whim Creek Oxide/ Blackrock	1.7	3.9	5.1	5.6	12.1
Corporate	-12.6	-12.6	-12.6	-12.6	-12.6
Tax Losses	12.4	12.4	12.4	12.4	12.4
Cash	0.6	0.6	0.6	0.6	0.6
Total A\$M	51.2	138.6	222.6	270.5	670.4
Current Shares on Issue M	1746.2	1746.2	1746.2	1746.2	1746.2
NPV A\$/sh	0.029	0.079	0.128	0.155	0.384
Issuance to Fund Supergene A\$M	10.0	10.0	10.0	10.0	10.0
Assumed Issue Price A\$/sh	0.01	0.01	0.01	0.01	0.01
Implied Shares Issues M	1000	1000	1000	1000	1000
Diluted NPV A\$M	0.022	0.054	0.085	0.102	0.248

Source: IIR estimates, based on NPV using real (uninflated) cash flows and a discount rate of 8%pa.

- ◆ Our valuation of Venturex is A\$60M, and our price target is A\$0.03/sh. The valuation and price target reflects NPV of the all assets at consensus (AUSUSD 0.78) risk adjusted to 45% of NPV, or the undiscounted value at consensus of the Supergene Project alone. There is no additional value assumed for exploration upside.
- ◆ The price target is supported by the A\$57M book value, plus unbooked tax assets of A\$12.4M. The Book value of A\$56.9M is calculated by taking the net assets at December 2015 of A\$13.9M and adding back the exploration impairment at June 2015 of A\$41.4M and the exploration write off in the half to December 2015 of A\$1.6M. This reflects the cost that would have to be spent to bring an initial drill hole discovery to the current stage of knowledge.
- ◆ We expect the risk discount to unwind:
 - as base metal prices rise, giving the consensus forecasts credibility,
 - as management de-risk the assets (environmental approvals, resource conversion, metallurgical test work), and
 - as the market becomes more aware of the story.

SUPERGENE PROJECT = CASH UP FRONT FOR LOW CAPEX

- ◆ Base Case NPV A\$46.5M at an 8% real discount rate, and at a consensus copper price of A\$3.56/lb.
- ◆ Base Case NPV of A\$26.3M at current spot price of US\$2.22/lb and an AUDUSD of 0.746.
- ◆ An A\$1/lb increase in copper price adds A\$30M the valuation.
- ◆ Current US\$2.22/lb spot copper price are likely to represent cycle lows, with minimal downside.
- ◆ The bias of risk is likely to be skewed to higher prices. The most likely time this asset could be in production is in FY2019, by which time we expect commodity prices will have recovered.
- ◆ We have allowed A\$6M to get the Supergene Project to commitment.
- ◆ Preproduction capital is estimated at A\$30-65M, with upper number being the mine plan in Table 6 of the reserve release of 1st July 2016, and the lower number assuming delayed overburden movement and the use of the Whim Creek leach plant. The Whim Creek option would raise life of mine opex by around A\$17M for trucking, and unit mining costs would be higher, due to the smaller fleet.
- ◆ The A\$71M pre-production cash outflow for Supergene in Figure 2 is the sum of preproduction capital (A\$65M) and feasibility costs (A\$6M). The A\$65M assumes all overburden is moved as capital before production, as it would be if the Supergene Project was part of the Sulphide Project. We have treated it this way to be consistent with the volume information in reserve release Table 6.
- ◆ In our base case, without deferring initial capital, cumulative cash flow turns positive in Year 2, and reaches A\$72M total. On the spot case, payback is achieved half way through Year 2, and cumulative cash by project end is A\$47M.
- ◆ This cash has value in its own right, but could also become the equity needed to fund either the Sulphur Springs Sulphide Project or a Whim Creek Sulphide Project.

THE SUPERGENE'S ROLE IN FUNDING THE LARGER SULPHIDE PROJECT

- ◆ The total Supergene + Sulphide Project has an initial capital cost per Venturex of A\$218M, with a maximum cash draw of A\$260M per Venturex, or A\$253M in Figure 3, assuming no lag.
- ◆ If the Sulphide Project is lagged two years, the maximum cash draw falls from A\$253M in Year 1 to A\$174M in Year 3. If lagged three years, the maximum draw falls to A\$135M in year 4.

- ◆ Once the Sulphide Project is lagged, the A\$71M pre-production capex of the Supergene Project can be optimised, spreading the A\$23M pre-strip and the A\$6M ore mining cost over the life of production, and optimizing in other ways that would see it reduce to more like A\$30M.

Figure 3 Impact on maximum cash draw of lagging Sulphide Project vs the Supergene Project

Cumulative Cash Flow A\$M													
Project year	0	1	2	3	4	5	6	7	8	9	10	11	12
Supergene (Fig 4)	-71	-44	-3	36	74	74	72	0	0	0	0	0	0
Sulphide Project (Fig 11)													
No Lag		-209	-146	-72	-17	38	93	138	175	180	206	260	265
Lag 1 Yr			-209	-146	-72	-17	38	93	138	175	180	206	260
Lag 2 Yr				-209	-146	-72	-17	38	93	138	175	180	206
Lag 3 Yr					-209	-146	-72	-17	38	93	138	175	180
Lag 4 Yr						-209	-146	-72	-17	38	93	138	175
Combined Projects													
No Lag	-71	-253	-149	-36	58	112	165	138	175	180	206	260	265
Lag 1 Yr	-71	-44	-213	-110	2	57	110	93	138	175	180	206	260
Lag 2 Yr	-71	-44	-3	-174	-72	1	55	38	93	138	175	180	206
Lag 3 Yr	-71	-44	-3	36	-135	-73	0	-17	38	93	138	175	180
Lag 4 Yr	-71	-44	-3	36	74	-136	-74	-72	-17	38	93	138	175

Source: IIR estimates assuming long term consensus assumptions – see Figure 1

Key operational assumptions

- ◆ In the base case, the overburden is mined in the pre-production box cut of the Sulphur Springs Sulphide Project, and the orebody of some 890Kt would be mined very quickly (ie in the first year), as part of the start-up of the larger Sulphide Project
- ◆ Strip Ratio 7:1 mining costs A\$3.14/t waste and A\$5/t ore, or A\$27/t ore to stockpile.
- ◆ The ore is crushed and stacked at the pace of irrigation, by a contract crusher (210Ktpa).
- ◆ Crushing and stacking costs estimated at A\$6/t
- ◆ Irrigating is driven by the circuit capacity, which we estimate at 20tpd for a capital cost of A\$30M, plus A\$10M for infrastructure. Crushing is assumed to be supplied by a contractor. The mine is 9Km off the Abydos iron ore mine haul road to Port Hedland, and the Abydos camp is close by.
- ◆ At 20tpd and 95% availability, 6940tpa cathode would be produced. At 85% recovery in a trend year, and a head grade of 3.9% copper in ore, some 210Ktpa of ore is crushed, stacked, and irrigated to match the SXEW plant. Recovery is a key assumption we discuss in more detail below.
- ◆ Circuit operating (irrigation and SXEW) costs A\$10/t crushed
- ◆ G&A is estimated at A\$4/t crushed

Figure 4 Sulphur Springs Supergene Project Base Case with Volumes and Capex as per Reserve Release Table 6

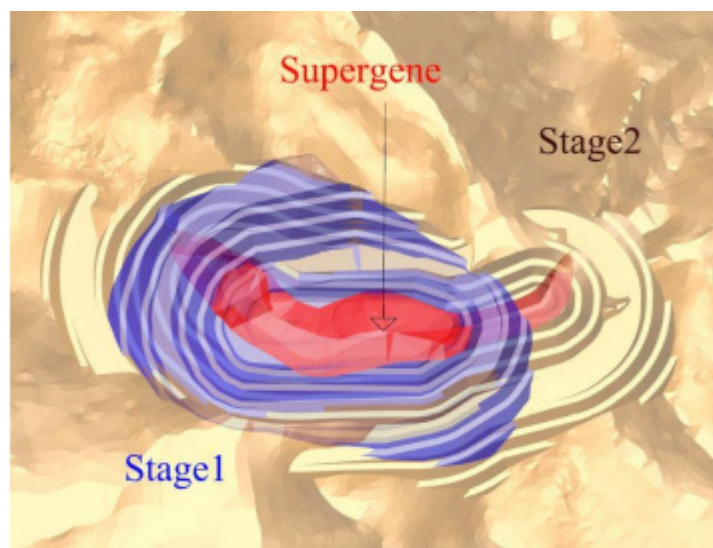
Sulphur Springs Supergene								
Year	Total	0	1	2	3	4	5	6
Copper Price US\$/lb		2.78	2.78	2.78	2.78	2.78	2.78	2.78
AUDUSD		0.780	0.780	0.780	0.780	0.780	0.780	0.780
MINING								
Waste Mined Mt	6.15	6.15						
Ore Mined to Stockpile Mt	0.88		0.37	0.51				
Copper Grade %			3.4%	4.2%				
Contained Copper Kt	33.94		12.67	21.27				
PROCESSING								
Ore Stacked Mt	0.88		0.21	0.21	0.21	0.21	0.04	0.00
Grade Cu %			3.4%	3.9%	3.9%	3.9%	3.9%	3.9%
Contained Copper Kt	32.97		7.14	8.11	8.11	8.11	1.51	0.00
Copper Remaining in Heap Kt			2.86	4.07	5.29	6.50	6.73	6.73
SXEW Plant Recovery			60%	85%	85%	85%	85%	85%
Copper Production tpd			12	20	20	20	4	0
Copper Production Kt	26.24		4.28	6.89	6.89	6.89	1.28	0.00
COSTS								
Capex for Leach Plant	30.6	30.6	0.0	0.0	0.0	0.0	0.0	0.0
Infrastructure/BFS	16.4	16.4	0.0	0.0	0.0	0.0	0.0	0.0
Prestrip Capitalized (Assumed)	23.7	23.7	0.0	0.0	0.0	0.0	0.0	0.0
Total Capex	70.7	70.7	0.0	0.0	0.0	0.0	0.0	0.0
Waste Mining A\$/t		3.14	3.14	3.14	3.14	3.14	3.14	3.14
Ore Mining Cost A\$/t		5.00	5.00	5.00	5.00	5.00	5.00	5.00
Opex A\$/t Crushed & Stacked		6.00	6.00	6.00	6.00	6.00	6.00	6.00
Opex A\$/t Irrigated & SXEW		10.00	10.00	10.00	10.00	10.00	10.00	10.00
G&A A\$/t		4.00	4.00	4.00	4.00	4.00	4.00	4.00
Crush & Stack A\$M	5.27	0.00	1.26	1.26	1.26	1.26	0.23	
SXEW A\$M	12.31	0.00	2.94	2.94	2.94	2.94	0.55	
G&A A\$M	3.52	0.00	0.84	0.84	0.84	0.84	0.16	
Selling Costs A\$M	1.10	0.00	0.18	0.29	0.29	0.29	0.05	
Total Cash Costs A\$M	26.59	0.00	6.27	6.38	6.38	6.38	1.18	
PROFIT & LOSS A\$M								
Revenue	206.6		33.7	54.3	54.3	54.3	10.1	
COGS	-26.6		-6.3	-6.4	-6.4	-6.4	-1.2	
EBITDA	180.0		27.5	47.9	47.9	47.9	8.9	
D&A	-54.7		-8.9	-14.4	-14.4	-14.4	-2.7	
EBIT	125.3		18.5	33.5	33.5	33.5	6.2	
Tax	-37.6		-5.6	-10.1	-10.1	-10.1	-1.9	
NPAT	87.7		13.0	23.5	23.5	23.5	4.4	
CASH FLOW A\$M								
Revenue	206.6		33.7	54.3	54.3	54.3	10.1	
Cash Costs	-26.6		-7.1	-7.9	-5.3	-5.3	-1.0	
Tax Paid	-37.6		0.0	-5.6	-10.1	-10.1	-10.1	-1.9
Capex	-70.7	-70.7	0.0	0.0	0.0	0.0	0.0	
Free Cash Flow	71.7	-70.7	26.6	40.8	38.9	38.9	-1.0	-1.9
NPV 8%	46.5							
Cumulative Cash Flow		-70.7	-44.1	-3.2	35.6	74.5	73.5	71.7

Source: Venturex, IIR estimates

A stand-alone development could cut pre-production capex to A\$30M

- ◆ In a Stand Alone Case, the overburden and mining costs are matched to the ore stacking schedule, which reduces the maximum cash draw down, but increases ongoing mining costs. As shown in Figure 5, a conceptual Supergene pit has been designed in two stages, and a significant amount of the overburden is associated with the higher strip ratio second stage.
- ◆ Mining costs are likely to be higher than the Base Case, given the very small tonnages being mined (0.2Mtpa ore).
- ◆ In the Stand Alone Case, we assume the ore is trucked to Whim Creek. The distance is 270Km by road, and we are using A\$0.07/tonne/Km (ie A\$19/t). This is typical of iron ore haul costs into Port Hedland.
- ◆ **Processing Plant at Whim Creek** – In the Stand Alone Case, the ore is trucked to Whim Creek, where there is an existing plant with 6 tpd of cathode capacity, out of the 20tpd required, and considerable infrastructure. We estimate the saving in plant cost would be around 50% or A\$15M. The current plant is owned by WASCO, and located on Venturex Leases. Blackrock have a three year agreement to operate, and it pays WASCO for use of the plant. We do not see the up-front cost of the plant acquisition being significant.
- ◆ **Infrastructure:** If the processing takes place at Whim Creek, the infrastructure relating to the processing plant is eliminated. We estimate the saving is again 50% or A\$5M.
- ◆ **Overall NPV is likely to be the same or a bit less than the Base Case.**

Figure 5 Two Stage Mining Plan for the Supergene Project Pit



Source: Venturex Presentation May 2016

Summary of sources used to estimate capital costs

Feasibility Study costs

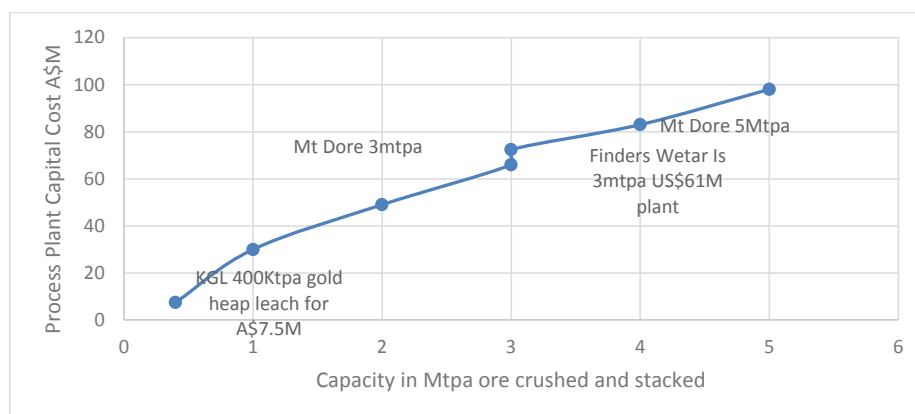
- ◆ We estimate A\$6M is required for sufficient data to commit to development.
- ◆ Major items include an access road, drilling to resource conversion, geotechnical and metallurgical testing, and converting the existing mining development permit for an underground mine into an open cut. The larger Sulphide Project would be incorporated into the approvals.

Pre-production capital costs

- ◆ **Processing Plant at Sulphur Springs** - We have used A\$30M as our processing plant cost which assumes a contractor owned crusher. Figure 6 suggests that A\$30m would buy 1Mtpa of ore to heap processing capacity, vs the 210Ktpa required. The KGL plant is a gold leach plant and not directly comparable, but indicative that scaling is still a relatively linear process below 1Mtpa.

- ◆ **Infrastructure: Base Case** - The Wetar Island project of Finders is a large project with an infrastructure spend of US\$34M. The Supergene Project is one tenth the ore processing capacity, and much better served with regional infrastructure, with far less local community obligations. We have estimated A\$10M plus the A\$4.5M included in the separate Supergene Project, built at the feasibility stage.

Figure 6 Heap Leach Plant Capacity vs Cost



Source: Mt Dore 43-101 dated 2013, KGL Resources, Finders Resources

Determining cash operating costs

Figure 7 Survey of Copper Heap Leach Costs

Operating Cost A\$/t Ore Crushed	Supergene	Mt Dore 2013	Wetar Is BFS 2013	Whim Ck Actual 2007
Crush	6.00			
Stack				
SXEW	10.00			
Total Processing	16.00	13.83	21.54	
G&A	4.00	3.30	17.56	
Transport A\$/t cathode		150		
Total (excluding transport)	20.00	17.13	39.10	22.00

Note: The Mt Dore G&A costs are from the reviewing consultant

Source: Mt Dore 43-101 of 2013, Finders 2013 BFS, Straits Resources annual reports 2006 and 2007.

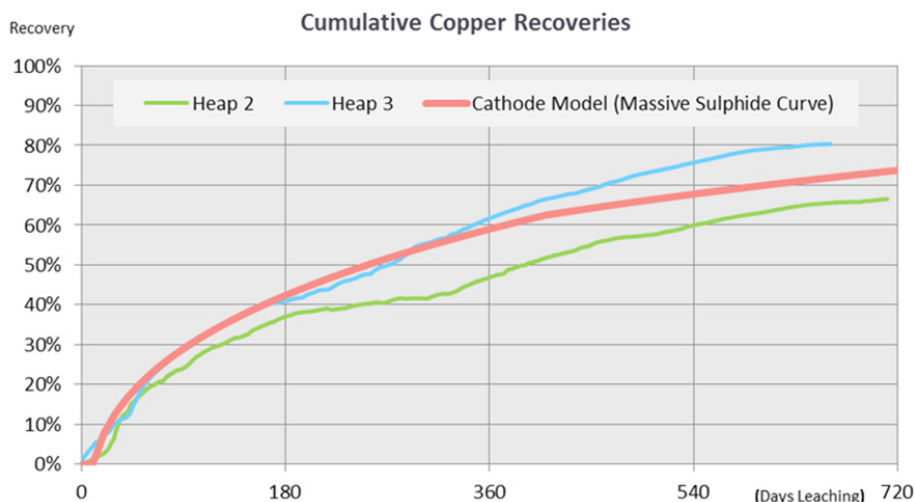
- ◆ The driver of leaching costs is tonnes added to the leach pad. Crushing and irrigation costs are tonnage driven, and the energy costs of the electrowinning stage is less dominant. We are comfortable using A\$/t costs scaled by the tonnage of ore added to the heap.
- ◆ Straits published cash costs for its Whim Creek heap leach operation for CY2006 and CY2007 of A\$35/t and A\$34/t respectively. After adjusting for estimated mining costs, we estimate that processing and administration costs were A\$23.08/t and A\$21.00/t respectively.
- ◆ Finders Resources published its Wetar Island costings in 2013, assuming fuel oil of US\$0.71/litre and diesel of US\$0.88/litre. Some two thirds of the processing costs were power related. The overall processing cost for a 25Ktpa cathode capacity plant is forecast to be US\$16.80/t crushed and stacked or A\$22.70/t, compared to our A\$16/t on the same basis.
- ◆ Since 2013, the A\$ diesel price has fallen from A\$1.45 per litre to A\$1.11 per litre, or from US\$1.33 per litre in Darwin to US\$0.82 per litre. We expect that the logistics costs at Port Hedland are better than at Wetar Island. We remain comfortable that A\$20/t for processing and G&A is reasonable.

Estimating leaching recovery

- ◆ The ore is a supergene, rather than a straight forward oxide, and there is no metallurgical test results available at present. We assume that in any year excluding the ramp up year, the SXEW will produce copper at 85% of the new metal coming onto the heap in each year, for a Life of Mine recovery of 78% overall. Chalcocite is present in the supergene, and chalcocite is being leached at Whim Creek currently. However, until detailed metallurgical testing is complete, recovery is a risk.

- ◆ The Whim Creek and Mons Cupri oxide/chalcocite ores were predicted to recover 85% and that was achieved during the projects period of operation from 2005 to 2009. Post ramp up, the SXEW was producing copper at around 95% of the new metal being placed onto the heap in each year.
- ◆ The plant moved to Finders Resources Wetar Island project where the first two years of production achieved a recovery of 80.3% over 645 days. In the first two years of operation, the SXEW plant was producing only 40% of the new metal going into the heap. The expectation was that the recovery in the first year would have been more like 60% (see figure below). Heap 3 is responding better than Heap 2.

Figure 8 Expected copper recovery vs time at Wetar Is.

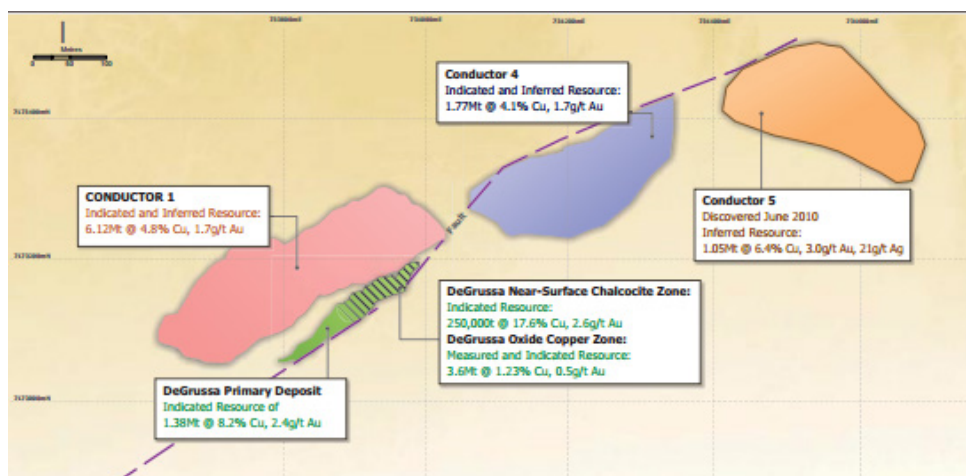


Source: Finders Resources

Could there be direct shipping ore?

- ◆ Inspection of the Supergene core has indicated the presence of chalcocite, and it is possible that crushing alone will free sufficient of this typically soft material to allow screening off a direct shipping ore. This would require crushing and screening only, with no stacking, leaching or electrowinning costs, and no residence time related selling delay.
- ◆ Sandfire’s Degruusa deposit was partly funded by mining and selling Direct Shipping Ore while the processing plant was under construction. The resource was small at 250Kt grading 17.6% copper within a much bigger oxide target. The Sulphur Springs 890Kt supergene may contain a small very high grade resource also. Out of the Degruusa resource, some 150Kt at 25.6% copper was shipped.

Figure 9 Plan View of the Degruusa Deposit



Source: Sandfire 2011 annual report

SULPHUR SPRINGS SULPHIDE PROJECT

- ◆ The Sulphur Springs Sulphide Project provides the company with substantial leverage both to the higher commodity prices, particularly for zinc, and to exploration, which would become more cost effective once the mine was in operation, and access to the region was simplified.
- ◆ Venturex has supplied the market with a comprehensive release of the mine business plan in its revised reserve statement (1 July 2016). We have studied that release for reasonableness, and our model largely reproduces that plan, with the addition of our commodity assumptions. The model line items (Figures 11, 12, 13, 14) can generally be traced back to the data in the reserve release Table 6 of 1st July 2016.
- ◆ Our model assumed the copper and zinc recoveries of copper 90% and zinc 93%, based on the latest test work by Lycopodium.
- ◆ Our forecasts also include the addition of Kangaroo Caves to the project at the end of the Sulphur Springs mine life, adding an additional 1.8M of ore.
- ◆ There will be small differences. Initial capex for the Sulphide Project has been reduced by A\$40M, which has been included in the Supergene Model. Concentrate treatment charges are lower because lower price assumptions have been used vs reserve case.
- ◆ The analysis is in real (ie flat) prices with no inflation of costs or revenues, which is consistent with the presentation in Table 6 of the reserve release of 1st July 2016. Commodity forecasters appear to be assuming between 1.5% and 2% inflation in USD currency terms. If we were to inflate prices, we would also use a higher discount rate, and the resultant valuations would not be materially different.

Cost data based largely on Definitive Feasibility quality information

- ◆ While the company is not able to refer to its reserve assessment as being of Definitive Feasibility level, much of the costings have been derived from the Definitive Feasibility Study that the company completed in 2013.
- ◆ The mine plan and the infrastructure have been costed to a DFS level.
- ◆ The process plant and tailings dam have been costed to PFS level, because of changes to the 2013 DFS flowing from the November 2015 optimization. These two items account for A\$134M out of the A\$317M Life Of Mine capital cost, or 42%.

Commodity and currency assumptions

Figure 10 Assumptions used in valuation models

Assumptions	
Copper Price US\$/lb	2.78
Zinc US\$/lb	0.94
Lead US\$/lb	0.87
Silver US\$/oz	18.6
Gold US\$/oz	1175
AUDUSD	0.78
TCRC Copper US\$/wmt concentrate	92.5
TCRC Copper US\$/lb pay	0.09
TCRC Zinc US\$/t	207.6
Zinc Base Charge US\$/wmt concentrate	200
Zinc Base Price US\$/t	2000
Zinc Charges Escalator	9.50%
Zinc Charges De-escalator	3.50%
Silver Refining US\$/oz Payable	3.50
Inflation	0.00%
Tax Rate	30%
NPV Discount Rate	8%

Source: Consensus Economics June 2016, IIR estimates

Figure 11 Sulphur Springs Sulphide Project – Financial Accounts

Sulphur Springs Sulphide														
Project Year	1	2	3	4	5	6	7	8	9	10	11	12	13	
REVENUE CALCULATION														
Copper Revenue A\$M	934.8	0.0	87.0	95.7	102.5	96.0	102.5	102.5	75.2	88.9	62.7	54.7	59.0	8.0
Zinc Revenue A\$M	920.7	0.0	69.0	88.5	97.0	99.4	82.2	86.4	80.1	73.8	66.3	63.2	101.2	13.6
Silver Revenue A\$M	41.5	0.0	4.8	5.3	5.2	5.0	4.9	4.9	4.8	3.7	2.4	0.5	0.0	0.0
Total A\$M	1897.0	0.0	160.8	189.5	204.7	200.3	189.6	193.9	160.1	166.4	131.4	118.5	160.2	21.6
PROFIT & LOSS														
Revenue	1897.0	0.0	160.8	189.5	204.7	200.3	189.6	193.9	160.1	166.4	131.4	118.5	160.2	21.6
Cost	-1338.8	0.0	-74.8	-132.9	-148.2	-143.9	-129.7	-117.3	-108.2	-113.5	-113.6	-112.7	-126.8	-17.1
EBITDA	558.2	0.0	86.0	56.6	56.5	56.5	59.9	76.5	51.9	52.8	17.9	5.8	33.4	4.5
D&A	-293.7	0.0	-24.1	-26.6	-26.6	-26.6	-26.6	-26.6	-26.6	-26.6	-26.6	-26.6	-26.8	-3.6
EBIT	264.5	0.0	61.9	30.0	30.0	29.8	33.3	50.0	25.3	26.3	-8.7	-20.8	6.6	0.9
Byproduct Credit A\$M	686.0	0.0	0.0	72.5	78.9	80.6	67.3	70.6	65.6	59.8	53.0	49.2	77.9	10.5
Net Cost A\$M	578.0	0.0	0.0	60.4	69.2	63.3	62.4	46.8	42.6	53.7	60.5	63.5	48.9	6.6
Net Cost A\$/lb Cu	0.0	0.0	2.3	2.4	2.4	2.2	1.6	2.0	2.2	3.4	4.1	3.0	3.0	
CASH FLOW														
Revenue	1897.0	0.0	160.8	189.5	204.7	200.3	189.6	193.9	160.1	166.4	131.4	118.5	160.2	21.6
Cost	-1255.1	-31.0	-138.4	-116.9	-105.2	-119.3	-121.2	-109.2	-102.4	-115.3	-99.0	-84.5	-96.6	-16.2
Royalty	-83.8	0.0	-7.2	-8.4	-9.1	-8.8	-8.5	-8.6	-7.0	-7.4	-5.8	-5.2	-6.9	-0.9
Capex	-293.7	-178.2	-15.3	-1.1	-16.5	-16.8	-5.0	-20.9	-5.7	-6.7	-21.7	-2.8	-3.0	0.0
Free Cash Pre tax	264.5	-209.2	-0.1	63.2	73.9	55.5	55.0	55.1	45.0	36.9	4.9	26.0	53.8	4.5
Tax	-91.3	0.0	0.0	-11.3	-19.2	-13.7	-10.0	-14.8	-7.2	-5.1	0.0	-0.7	-9.0	-0.3
Free Cash Flow After Tax	173.2	-209.2	-0.1	51.9	54.8	41.8	44.9	40.3	37.8	31.8	4.9	25.3	44.8	4.2
Cumulative Cash A\$M			-209.3	-146.1	-72.1	-16.7	38.3	93.5	138.5	175.4	180.3	206.3	260.0	264.5
Post Tax NPV @ 8%	36.7													
Pre Tax NPV @ 8%	94.5													

Source: Venturex Reserve release 1 July 2016, Consensus Economics, IIR estimates

Figure 12 Sulphur Springs Sulphide Project - Mining Volumes

Sulphur Springs Sulphide														
Project Year	Total	1	2	3	4	5	6	7	8	9	10	11	12	13
OPEN CUT MINING														
Waste Mined Mt	43.25	21.99	16.75	4.37	0.14									
Ore Mined Mt	4.3	0.27	1.65	2.16	0.25									
Copper Grade %	0.7%	1.2%	1.4%	1.4%										
Zinc Grade%	0.6%	3.6%	4.3%	6.3%										
Contained Copper Kt	55.4	1.86	19.76	30.23	3.56									
Contained Zinc Kt	169.7	1.60	59.29	92.84	16.00									
SULPHUR SPRINGS UG														
Ore Mined Mt	4.9			0.09	0.61	1.00	1.01	1.01	0.84	0.34				
Copper Grade %				1.8%	1.3%	1.5%	1.4%	1.1%	1.3%	1.2%				
Zinc Grade%				3.7%	4.0%	4.0%	3.8%	4.0%	3.3%	1.9%				
Contained Copper Kt	64.7			1.55	7.92	14.97	14.17	11.07	10.96	4.07				
Contained Zinc Kt	180.4			3.18	24.36	39.92	38.46	40.24	27.82	6.44				
KANGAROO CAVES														
Ore Mined Mt	1.8							0.03	0.39	0.44	0.43	0.42	0.14	
Copper Grade %								0.5%	0.6%	0.7%	0.8%	0.6%	0.5%	
Zinc Grade%								4.6%	4.4%	4.1%	3.0%	3.7%	4.1%	
Contained Copper Kt	12.2							0.13	2.32	3.09	3.40	2.54	0.68	
Contained Zinc Kt	70.2							1.15	17.03	18.08	12.75	15.65	5.58	
TOTAL MINED														
Total Ore Mined Mt	11.1	0.27	1.65	2.16	0.34	0.61	1.00	1.01	1.03	1.23	0.78	0.43	0.42	0.14
Copper Grade %	0.7%	1.2%	1.4%	1.5%	1.3%	1.5%	1.4%	1.1%	1.1%	0.9%	0.8%	0.6%	0.5%	
Zinc Grade%	0.6%	3.6%	4.3%	5.6%	4.0%	4.0%	3.8%	4.0%	3.6%	3.1%	3.0%	3.7%	4.1%	
Contained Copper Kt	132.3	1.86	19.76	30.23	5.10	7.92	14.97	14.17	11.19	13.28	7.16	3.40	2.54	0.68
Contained Zinc Kt	420.4	1.60	59.29	92.84	19.18	24.36	39.92	38.46	41.39	44.85	24.52	12.75	15.65	5.58

Source: Venturex Reserve release 1 July 2016, Consensus Economics, IIR estimates

Figure 13 Sulphur Springs Sulphide Project - Ore Processing and Product Volumes

Sulphur Springs Sulphide													
Project Year	1	2	3	4	5	6	7	8	9	10	11	12	13
ORE PROCESSED													
Total Ore Processed Mt	11.06	0.00	0.91	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.01	0.14
Copper Grade %	0.7%	1.4%	1.4%	1.5%	1.4%	1.5%	1.5%	1.1%	1.3%	0.9%	0.8%	0.9%	0.9%
Zinc Grade%	0.6%	3.6%	4.2%	4.6%	4.7%	3.9%	4.1%	3.8%	3.5%	3.1%	3.0%	4.8%	4.8%
Grade Ag g/t	12.53	16.70	16.70	16.45	15.64	15.40	15.40	15.12	11.67	7.66	1.67	0.00	0.00
Contained Copper Kt	136.7	0.0	12.7	14.0	15.0	14.0	15.0	11.0	13.0	9.2	8.0	8.6	1.2
Contained Zinc Kt	436.8	0.0	32.7	42.0	46.0	47.1	39.0	41.0	38.0	35.0	31.4	30.0	48.0
Contained Ag Koz	4210.5	0.0	488.1	537.0	529.0	504.5	495.2	495.2	486.2	375.3	246.3	53.8	0.0
Recovery Cu	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Recovery Zinc	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%	93.0%
Recovery Ag	45.9%	45.9%	45.9%	45.9%	45.9%	45.9%	45.9%	45.9%	45.9%	45.9%	45.9%	45.9%	45.9%
Copper Con Grade (dry basis)	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
Zinc Con Grade (dry basis)	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%
Cu Concentrate Kwmt	514.5	0.0	47.9	52.7	56.4	52.8	56.4	56.4	41.4	48.9	34.5	30.1	32.5
Zn Concentrate Kwmt	802.8	0.0	60.1	77.2	84.5	86.6	71.7	75.4	69.8	64.3	57.8	55.1	88.2
Payable Cu	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%	96.5%
Payable Zn	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
Payable Ag	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Sales Copper Kt payable	118.8	0.0	11.1	12.2	13.0	12.2	13.0	13.0	9.6	11.3	8.0	6.9	7.5
Sales Zinc Kt payable	345.3	0.0	25.9	33.2	36.4	37.3	30.8	32.4	30.0	27.7	24.9	23.7	37.9
Sales Silver Koz payable	1739.4	0	202	222	219	208	205	205	201	155	102	22	0

Source: Venturex Reserve release 1 July 2016, Consensus Economics, IIR estimates

Figure 14 Sulphur Springs Sulphide Project – Capital & Operating Costs

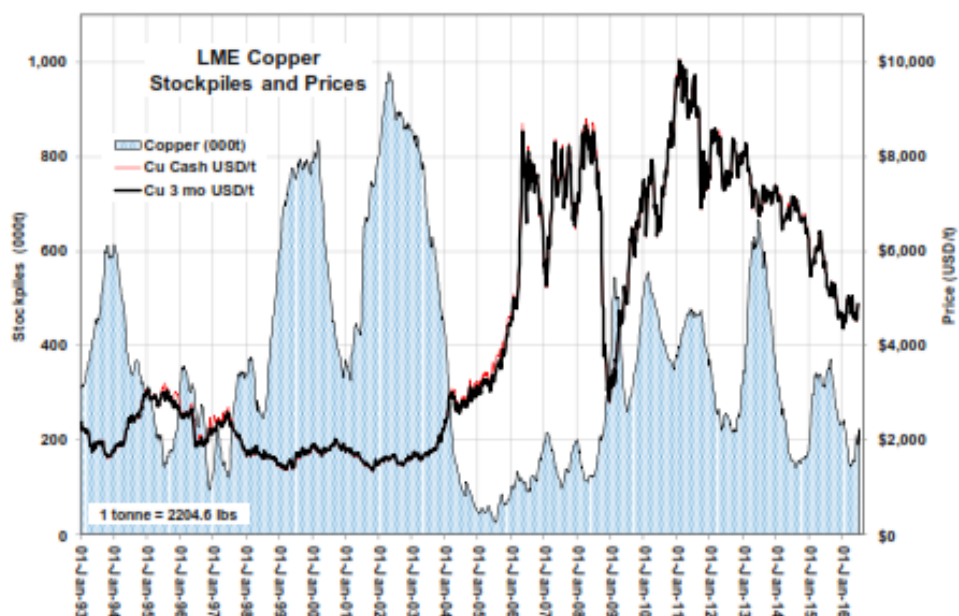
Sulphur Springs Sulphide													
Project Year	1	2	3	4	5	6	7	8	9	10	11	12	13
COST CALCULATION													
Mill A\$/t processed	41.60	41.60	41.60	41.60	41.60	41.60	41.60	41.60	41.60	41.60	41.60	41.60	41.60
Admin A\$/t processed (included in Processing)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Concentrate Road A\$/t con	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00	37.00
Concentrate Shipping A\$/t con	43.00	43.00	43.00	43.00	43.00	43.00	43.00	43.00	43.00	43.00	43.00	43.00	43.00
OC Mining Costs A\$M													
OC Mining Costs A\$M	138.0	31.0	68.0	35.7	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
UG Mining Costs A\$M	182.4	0.0	0.0	0.0	17.4	34.8	41.1	27.9	25.5	24.2	11.5	0.0	0.0
Mining Cost A\$M	393.9	31.0	68.0	35.7	20.7	34.8	41.1	27.9	26.5	39.7	29.2	17.0	16.9
Processing & Admin A\$M	459.9	0.0	37.8	41.6	41.6	41.7	41.6	41.6	41.6	41.6	41.6	41.6	41.9
Total Site A\$M	853.8	31.0	105.8	77.3	62.3	76.5	82.7	69.5	68.1	81.3	70.8	58.6	58.9
Haulage A\$M	48.7	0.0	4.0	4.8	5.2	5.2	4.7	4.9	4.1	4.2	3.4	3.2	4.5
Shipping A\$M	56.6	0.0	4.6	5.6	6.1	6.0	5.5	5.7	4.8	4.9	4.0	3.7	5.2
TCRC A\$M	295.8	0.0	23.9	29.2	31.7	31.6	28.2	29.2	25.5	24.9	20.8	19.1	28.1
Royalty	83.8	0.0	7.2	8.4	9.1	8.8	8.5	8.6	7.0	7.4	5.8	5.2	6.9
Total Cost A\$M	1338.8	31.0	145.5	125.3	114.3	128.1	129.7	117.8	109.5	122.7	104.8	89.7	103.4
P&L Inventory Change	0.0	-31.0	-70.8	7.7	33.9	15.8	0.1	-0.5	-1.2	-9.2	8.8	23.0	23.4
Total P&L Expense	1338.8	0.0	74.8	132.9	148.2	143.9	129.7	117.3	108.2	113.5	113.6	112.7	126.8
CAPEX													
Sulphur Springs A\$M	289.0	178.2	15.3	1.1	16.5	16.8	5.0	5.9	5.7	6.7	20.2	17.6	0.0
Kangaroo Caves	23.5	0.0	0.0	0.0	0.0	0.0	0.0	15.0	0.0	0.0	1.5	4.0	3.0
Salvage Value A\$M	-18.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-18.9	0.0	0.0
Total Capex A\$M	293.7	178.2	15.3	1.1	16.5	16.8	5.0	20.9	5.7	6.7	21.7	2.8	3.0

Source: Venturex Reserve release 1 July 2016, Consensus Economics, IIR estimates. NOTE: Sulphur Springs Capex in Year 1 is \$40M less than in Table 6 of the release of 1st July 2016, because it is already included in the cash flow of the Supergene Project

IMPACT OF THE NEXT COMMODITY CYCLE

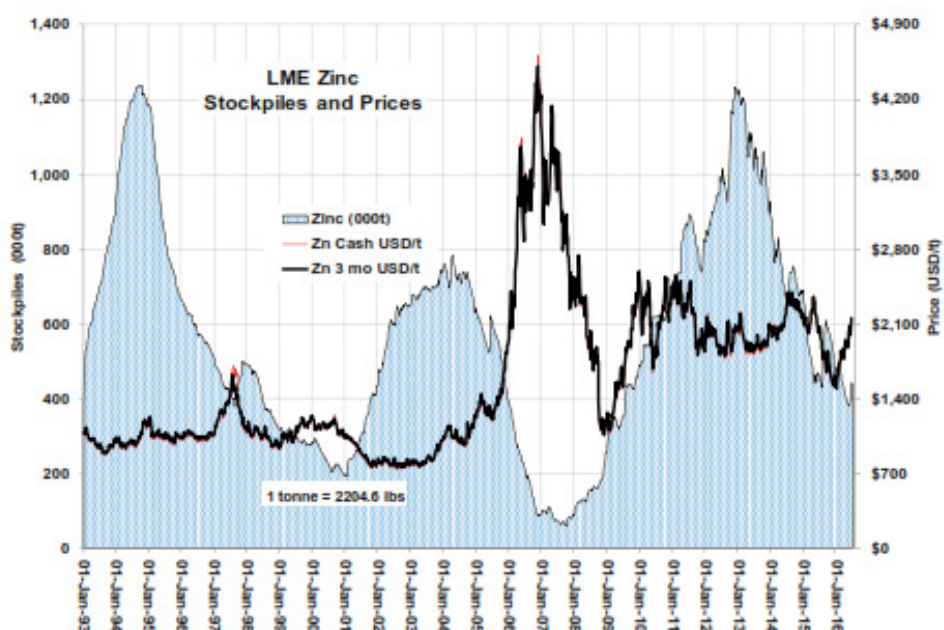
- ◆ In our valuation scenario tables, we used an upside case which assumed a trend copper price of US\$4.00/lb (US\$8820/tonne) and zinc of US\$1.50/lb (US\$3300/tonne).
- ◆ Our copper price represents the average of the price peaks from early 2006 to early 2014.
- ◆ Our zinc price was only exceeded between January 2006 and September 2007 in the previous cycle, but the loss of significant mine capacity in the last 18 months is likely to have set the scene for a stronger run in zinc prices than seen in the previous cycle.

Figure 15 Copper Price History



Source: Matau Advisory

Figure 16 Zinc Price History



Source: Matau Advisory

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