



## Venturex Resources SPECULATIVE BUY

23 October 2012

### Room to grow at Sulphur Springs

Current Price: **\$0.04**  
Valuation: **\$0.14**

Ticker: **VXR**  
Sector: **Materials**

Shares on Issue (m): **1,375.4**  
Market Cap (\$m): **57.8**  
Cash (\$m): **6.5**  
Debt (\$m): **0.0**  
Enterprise Value (\$m): **51.3**

52 wk High/Low: **\$0.09** **\$0.03**  
12m Av Daily Vol (m): **0.78**

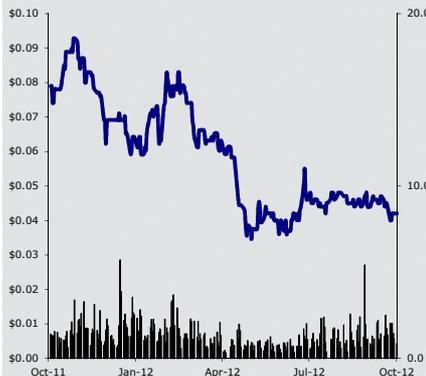
#### Directors:

Anthony Kiernan Non-Executive Chairman  
Michael Mulroney Managing Director  
Dr Allan Trench Non-Executive Director  
John Nitschke Non-Executive Director  
Ray Parry Non-Executive Director  
Ian Suckling Chief Operating Officer

#### Substantial Shareholders:

Regent Pacific Group Ltd 31.9%  
Northern Star Resources Ltd 14.5%  
Argonaut Limited 4.0%

#### Share Price Graph



Analysts:  
Adam Miethke  
Patrick Chang

#### Drilling Results:

Venturex (VXR) has announced results from a recent drill program undertaken at the Company's Sulphur Springs Project in the Pilbara, Western Australia (100% VXR).

Six drill holes targeted extensions of the current Sulphur Springs Resource and confirmed that copper and zinc mineralisation remains open at depth. Drilling also identified additional high-grade zones of mineralisation within the hanging wall which was previously thought to offer minimal upside. Key intervals of note include:

- SSR001: 8m @ 1.69% Cu, 0.51% Zn, 4.5g/t Ag from 232m
- SSR002: 11m @ 19.44% Zn, 0.43% Cu, 34.3g/t Ag, 0.38g/t Au from 174m
- SSR003: 7m @ 4.63% Cu, 0.05% Zn, 1.7g/t Ag from 234m
- SSR003: 11m @ 4.79% Zn, 0.1% Cu, 10.1g/t Ag from 215m

This drill hole data will be incorporated into a revised Resource estimate being undertaken as part of a feasibility study, due for completion in late 2012.

Sulphur Springs forms part of a 35km long belt of mineralised volcanic rocks which hosts multiple occurrences of VMS-style deposits including Kangaroo Caves (Resource of 6.3Mt grading 3.3% Zn and 0.5% Cu) and multiple greenfields targets.

#### Impact:

Positive

The latest drilling extends the current boundary of mineralisation and demonstrates the Sulphur Springs Resource remains open at depth. The grades of both copper and zinc are likely to support additions to the current Resource/Reserve base and enhance the project economics of the pending feasibility study.

Confirmation of mineralisation within the hanging wall also provides further upside to the project given the grade and width of this zone (elevated in precious metals content). The hanging wall zones are located within 50m of the Main Zone Reserve which increases the potential to be included into the future Reserve inventory.

#### View:

Positive

This drilling campaign confirms that Sulphur Springs has more to offer on a local and regional basis. Whilst the geology around current Resources has been well understood, new drilling has confirmed that further upside can be realised with targeted drilling.

Argonaut remain positive about the exploration outlook at both the Sulphur Springs and Whim Creek hubs and further value is now being unlocked through the \$3.5m exploration budget for FY13.

#### Recommendation:

Spec Buy

Argonaut's valuation is \$0.14 – Speculative Buy



### Room to grow at Sulphur Springs

Venturex (VXR) has announced results from a recent drill program undertaken at the Company's Sulphur Springs Project in the Pilbara, Western Australia (100% VXR).

**Drilling results confirm that mineralisation remains open at depth...**

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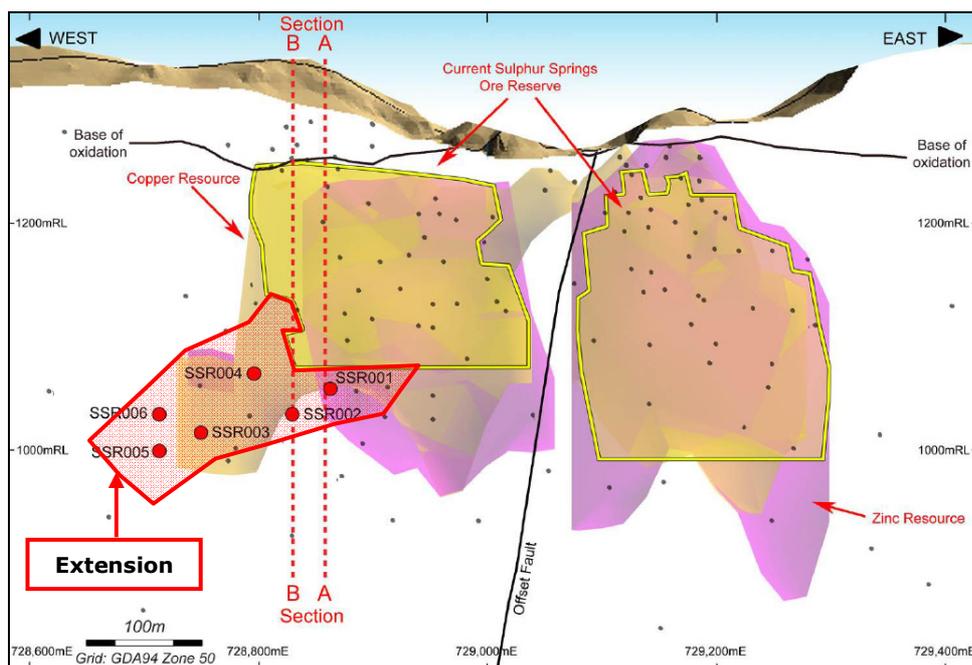
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**Results indicate the Resource has room to increase**

These results extend the current boundary of mineralisation and demonstrates the Sulphur Springs Resource remains open at depth. The grades of both copper and zinc are likely to support additions to the current Resource/Reserve base and enhance the project economics of the pending feasibility study.

Figure 1: Long-section of Sulphur Springs illustrating latest drill holes

**Long-section illustrated upside**



Source: VXR

**Positive results within the hanging wall**

Confirmation of mineralisation within the hanging wall also provides further upside to the project given the grade and width of this new zone (elevated in precious metals content).

The hanging wall zones are located within 50m of the Main Zone Reserve which improves the likelihood they may be included into the future Reserve inventory.

This drilling campaign confirms Sulphur Springs has more to offer on a local and regional basis. Whilst the geology around current Resources has been well understood, new drilling has confirmed that further upside can be realised with targeted drilling.

**Potential for new discoveries remains high**

The exploration model for VMS deposits indicate they occur in clusters, and based on this model, the potential for further discoveries remains high.



### District potential at Sulphur Springs

**VXR have consolidated a major VMS footprint at Sulphur Springs which includes...**

**...Kangaroo Caves**

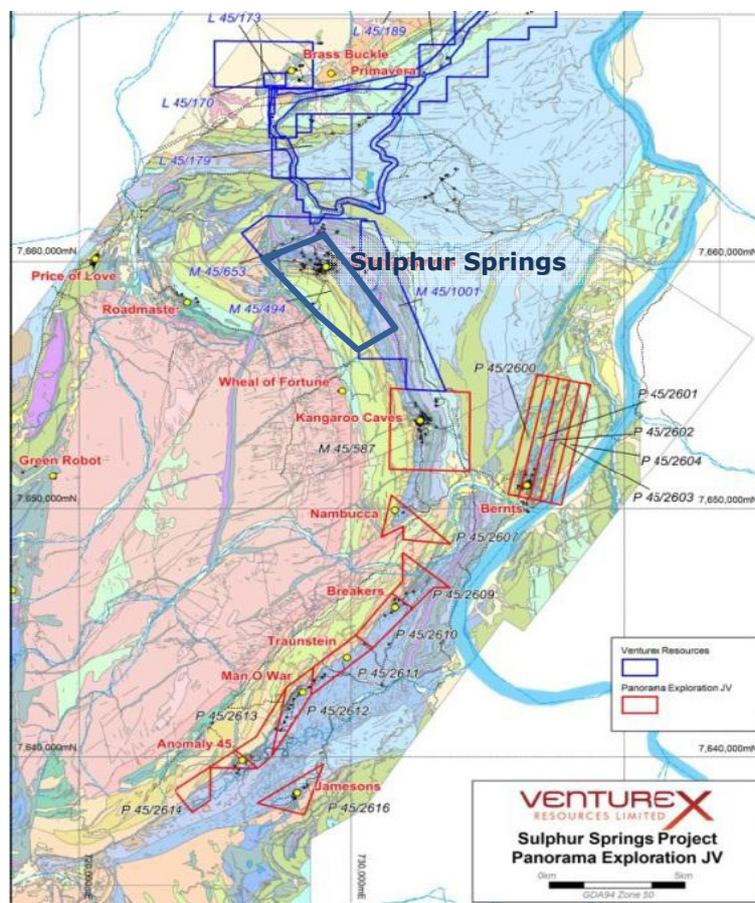
Sulphur Springs forms part of a broader belt of mineralised volcanic rocks which host multiple VMS occurrences. In July 2012, VXR acquired an additional 14 tenements through the Panorama Exploration JV covering an area of approximately 35km<sup>2</sup> to the south of the Sulphur Springs Project (Figure 2).

This created a contiguous land holding covering multiple prospects including Kangaroo Caves, hosting a current Resource of 6.3Mt grading 3.3% Zn and 0.5% Cu. This deposit is located 6km to the south-east of the proposed centralised processing hub at Sulphur Springs and will be a focus of near-term exploration. Currently, the deposit remains open down-dip at depth to the northeast.

**...and multiple greenfields targets**

Greenfields targets include Nambucca, Breakers, Man O'War, Anomaly 45 and Jamesons (Figure 2) which have received limited historical exploration. Argonaut expects these targets will be prioritised and systematically evaluated as part of an ongoing exploration strategy, alongside the development of the Sulphur Springs project.

Figure 2: Panorama Exploration Joint Venture Location and key targets in red



Source: VXR

**Whilst Sulphur Springs is taking shape...**

The recent drilling results together with the under-explored regional targets demonstrate that Sulphur Springs has more to offer. Exploration upside exists surrounding the current Resources and district potential remains high for new discoveries.

**...don't forget Whim Creek**

Whilst Argonaut remain positive about the exploration outlook at both the Sulphur Springs, Whim Creek cannot be forgotten. The Whim Creek volcanics group hosts multiple deposits including Liberty Indee within an 85km long volcanic belt and are key to supporting the Company's development plan.

The exploration side to the VXR story is compelling. Whilst the Company progresses its feasibility study due for completion in late 2012, value can continue to be unlocked from the Company's expansive exploration footprint within the Pilbara.



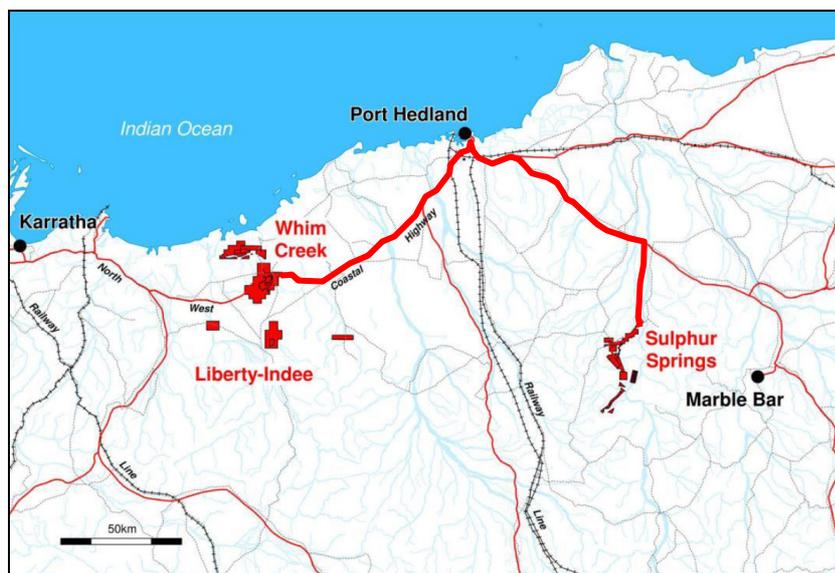
### Recap on Venturex’s Pilbara production strategy

**Feasibility study is nearing completion...**

VXR are progressing with a feasibility study for its Pilbara Copper-Zinc Project which is centred on the development of a processing facility at Sulphur Springs. The facility will source high grade copper-zinc (Cu-Zn) ore from the proposed Sulphur Springs underground mine and two open pit mines at Whim Creek. The operation is a conventional milling and flotation circuit producing separate, high quality Cu and Zn concentrates.

**...which will source copper/zinc ores from Sulphur Spring and Whim Creek**

Figure 3: Location of Pilbara projects



Source: VXR

**Due in late 2012 following lengthy delays**

The study which is due for completion in late 2012 was previously based on a processing facility at Whim Creek. Following the acquisition of Sulphur Springs in January 2011, the study was reviewed which was the primary driver for a +12 month delay.

**Study metrics**

Production is slated for late 2014 based on a 1mtpa facility to produce 18,000t Cu, 30,000t Zn, 0.25moz Ag per annum over a minimum 7 years mine life. Argonaut estimates pre-production capex at ~\$250m (incl. EPCM and contingency) with a C1 operating cost between A\$1.15/lb - A\$1.40/lb payable Cu, placing it within the 3<sup>rd</sup> quartile on cash costs.

**Large combined Pilbara Resource/Reserve inventory**

The current Resource and Reserve inventory from the Pilbara is as follows (Resource combines Measured, Indicated and Inferred). This illustrates the scale of Sulphur Springs and further conversion potential which has also been confirmed with the most recent drilling results.

Table 1: Resources and Reserves of Pilbara assets

Resources	Tonnes (kt)	Cu (%)	Zn (%)	Pb (%)	Ag (g/t)	Au (g/t)	CuEq (%)
Whim Creek Hub	7,239	1.20	2.29	0.66	26.98	0.19	2.20
Sulphur Springs Hub	19,035	1.20	3.20	0.20	17.00	0.00	2.00
<b>Total</b>	<b>26,274</b>	<b>1.20</b>	<b>2.95</b>	<b>0.33</b>	<b>19.75</b>	<b>0.05</b>	<b>2.06</b>

Reserve	Tonnes (kt)	Cu (%)	Zn (%)	Pb (%)	Ag (g/t)	Au (g/t)	CuEq (%)
Whim Creek Hub	4,460	0.85	1.57	0.52	19.74	0.16	1.53
Sulphur Springs Hub	5,663	1.90	4.30	0.00	18.00	0.00	3.00
<b>Total</b>	<b>10,123</b>	<b>1.44</b>	<b>3.10</b>	<b>0.23</b>	<b>18.76</b>	<b>0.07</b>	<b>2.35</b>

Source: Argonaut

**Economics of new discoveries at Sulphur Springs may be enhanced**

With Sulphur Springs considered to be the centre of gravity for the planned processing facility, the economics of any new discoveries within this district may be further enhanced given short haulage distances and infrastructure.

**Valuation - \$0.14. To be reviewed upon release of the feasibility study**

Argonauts valuation of \$0.14 (NPV \$192.5m @ 11% discount rate) is based on the following modelling assumptions and we expect these will be revised following release of findings from the feasibility study in late 2012.

The model is based on a 7 year mine life, however recent drilling at Sulphur Springs indicates further upside.

Table 2: Modelling assumptions

**Modelling assumptions**

Key Project Assumptions		
Inputs		
Capex	\$m	250
Ore milled	Mtpa	1
Copper recovery	%	90
Zinc recovery	%	87
First production	-	Dec Q 2014
Copper eq production	ktpa	27
Net cash cost	US\$/lb Cu	1.35
Mine life	yrs	7

Source: Argonaut, VXR

**Payability of metals concentrates**

Argonaut expect that circa ~60% of the future revenue stream will be derived from copper concentrates and ~30% from zinc concentrate.

The product specifications based on VXR's test work to date indicate the following:

Table 3: Metallurgical recoveries and product specifications

Production	Mass %	Copper		Zinc		Silver		Lead	
		Grade %	% Dist						
Sulphur Springs	Mass %								
Copper concentrate	6.3	26.4	95.1	1.3	2.0	74.0	25.3	1.1	39.2
Zinc concentrate	6.3	0.5	1.9	58.9	90.3	56.0	19.1	0.2	7.7
Whim Creek									
Copper concentrate	7.1	25.2	88.6	3.3	38.7	38.0	47.4	0.4	28.0

Source: Argonaut, VXR

**Pricing and FX assumptions**

Argonaut's metals pricing and FX assumptions were recently updated as follows:

Table 3: Metal pricing and FX assumptions

Key Project Assumptions	FY 13	FY 14	FY 15	FY 16
Copper	3.75	3.50	3.50	2.75
Zinc	0.90	1.00	1.10	0.85
FX	1.00	1.00	1.00	0.80

Source: Argonaut

**Cash sufficient to completion of study**

VXR reported a cash position of ~\$6.5m at June 30 which followed a capital raising of ~\$11m undertaken in May 2012.

This provides sufficient funding to see the Company through completion of the feasibility study and progressing its exploration program in the Pilbara.

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**Important Disclosure**

In May 2012 Argonaut acted as Sole Manager to the Placement and Entitlements issue to raise \$11M and earned fees commensurate with those services. Argonaut acts as Corporate Advisor to VXR and earns fees commensurate with those services. Argonaut holds or controls 66,102,319 VXR shares.

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