

BUY

Current Price 1.8c
Target Price 3.5c

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

Shares on Issue (m): **1,696.3**
Market Cap (\$m): **32.2**
Cash (\$m): **2.2**
Debt (\$m): **0.0**
Enterprise Value (\$m): **30.0**

52 wk High/Low: **\$0.06** **\$0.02**
12m Av Daily Vol (m): **0.82**

Directors:

Anthony Kiernan	Non-Executive Chairman
Michael Mulroney	Managing Director
Ray Parry	Non-Executive Director
Jim Mellon	Non-Executive Director
Trevor Hart	Company Secretary

Substantial Shareholders:

Regent Pacific Group Ltd	30.5%
Northern Star Resources Ltd	13.9%
Henghou Industries	6.7%

Share Price Graph



Monday, 27 May 2013

Venturex Resources

Sticking to the knitting

Analysts | Adam Miethke | Matthew Keane | Patrick Chang

Quick Read

Venturex Resources (VXR) has validated its recent strategy change to focus on exploration in 2013 with positive results from Kangaroo Caves. This confirms that exploration upside may provide further Reserve scale as part of the ongoing assessment of the feasibility study. VXR remains highly leveraged to exploration success.

Event & Impact | Positive

Kangaroo Caves drilling results validate exploration strategy: A shift of strategic focus towards exploration in 2013 has yielded positive results from Kangaroo Caves (KC) with the extension of copper and zinc mineralisation. KC provides upside for a future revision of the Sulphur Springs (SS) feasibility study given its proximity to SS and the improving grade trend. Grades of up to 4.0% copper and 9.3% Zn have been defined within discrete zones and structural offsets which present an opportunity to identify additional mineralisation. Key results include:

- **KRC007** 6m @ 0.6% Cu, 9.3% Zn, 7.3g/t Ag from 137m from 154m
- **KRC007** 4m @ 2.6% Cu, 0.8% Zn, 2.8 g/t Ag, 0.02 g/t Au from 165m
- **KRC008** 5m @ 4.0% Cu, 0.2% Zn, 3.3g/t Ag, 0.01 g/t Au from 143m

\$4m earmarked for exploration in 2013: Proceeds of the current \$6.4m capital raising (together with current \$2.2m cash) will be weighted towards brownfields and greenfields exploration at both SS and Whim Creek (WC). This forms part of the enhancement program to increase the modest Resource/Reserve base that underpinned the 2012 feasibility study. VXR has identified near-term targets which include geophysical targets at Liberty Indee, Salt Creek and additional exploration at KC.

Enhancing the feasibility study: The study provided a 'base case' for a production scenario moving forward. Argonaut's valuation confirms that increasing the current mine life beyond ~8.5 years (based on a 1Mtpa operation) is a key lever to NPV accretion. Whilst SS is the current 'centre of gravity' based on existing Reserves, new discoveries at SS or WC may change this outcome.

Brazil exploration remains measured, without being a distraction: Whilst VXR's Brazilian gold exploration projects offer a second angle for VXR's strategy, exploration will be limited in 2013 with a budget allocation of ~\$200k. The assets offer strategic appeal and joint venture partners are being sought to continue exploration.

Recommendation

Argonaut's valuation has been reduced to 3.5c (was 4.5c) based on a pre-production peer average EV/Resource lb metric of US3.1c/lb. Speculative buy maintained.

Sticking to the knitting

Positive results from Kangaroo Caves validates VXR’s exploration strategy in 2013...

...with extensions to both the copper and zinc mineralisation

Exploration is key to providing further scale to improve the project economics

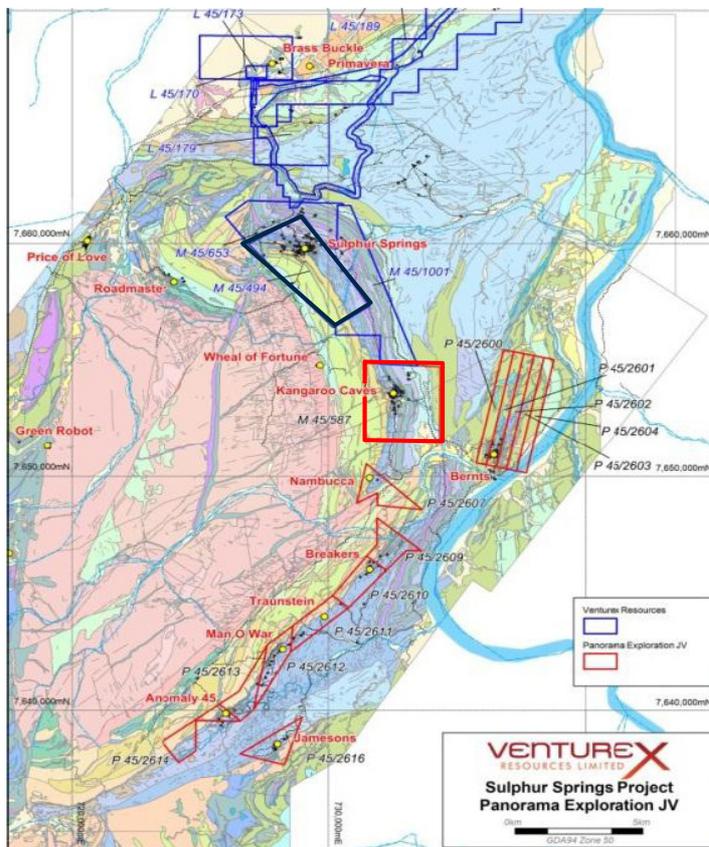
Sulphur Springs encompasses a 35km belt of mineralised volcanic lithology

Venturex Resources (VXR) has validated its recent strategy change to focus on exploration in 2013 with positive results from Kangaroo Caves (KC). This confirms that exploration upside may provide further Reserve scale as part of the ongoing assessment of the feasibility study. VXR remains highly leveraged to exploration success.

A shift of strategic focus towards exploration in 2013 has yielded positive results from KC with the extension of copper and zinc mineralisation. Grades of up to 4.0% copper and 9.3% Zn have been defined within discrete zones and structural offsets of mineralisation present an opportunity to identify further zones.

Resource scale is necessary to support a future revision of the Sulphur Springs (SS) feasibility study. The study provided a ‘base case’ for a production scenario moving forward. Argonaut’s valuation confirms that increasing the current mine life beyond ~8.5 years (based on a 1Mtpa operation) is a key lever to NPV accretion. Whilst SS is the current ‘centre of gravity’ based on current Reserves, new discoveries at SS or WC may change this outcome.

Figure 1: Sulphur Springs location and key targets in red



Source: VXR

The strategic shift to exploration is positive

Argonaut considers the shift to an exploration focus in 2013 as a positive move for VXR’s development strategy as the aggregate land package at SS and WC has more to offer. The \$4m exploration budget provides adequate funding to identify and test multiple targets via a results-driven program.

District potential at Sulphur Springs and Whim Creek

Sulphur Springs is the 'centre of gravity' of VXR's current Resource base

Sulphur Springs

Sulphur Springs (SS) forms part of a 35km belt of mineralised volcanic horizon which host multiple VMS occurrences. In July 2012, VXR acquired an additional 14 tenements through the Panorama Exploration JV covering an area of approximately 35km² to the south of SS. This created a contiguous land holding covering multiple prospects including KC and the consideration for the acquisition is a \$2/tonne production royalty for all ore mined and treated by VXR (uncapped) to the vendors.

Multiple greenfields and brownfields targets require evaluation

Greenfields targets within the JV include Nambucca, Breakers, Man O'War, Anomaly 45 and Jamesons (Figure 1) which have received limited historical exploration. Argonaut expects these targets to be prioritised and systematically evaluated as part of an ongoing exploration program. The recent drilling results from KC together with the under-explored regional targets demonstrate that Sulphur Springs has more to offer.

Whim Creek cannot be forgotten as it provides huge upside to new VMS discoveries

Whim Creek

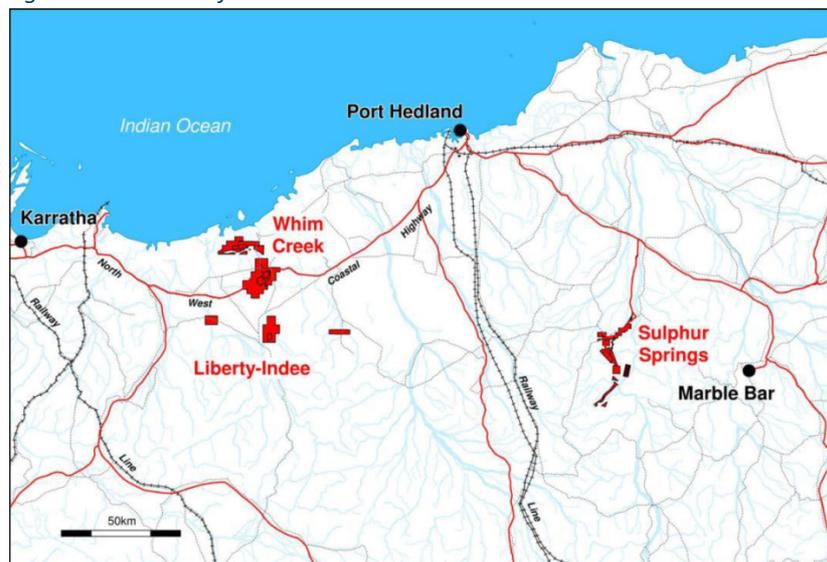
VXR's Whim Creek deposits occupy a continuous geological belt 85km long and 5-10km wide. This belt hosts numerous deposits including Whim Creek, Liberty Indee, Salt Creek, Mons Cupri, and a number of exploration targets including Balla Balla. VXR has indicated that exploration will move to Liberty Indee in May following the campaign at KC. A six-hole program will target a number of airborne and ground EM anomalies adjacent to Evelyn South in the near-term.

Geophysical and ground reconnaissance data has provided new targets to follow up

Whim Creek is highly prospective for new VMS discoveries given the relatively under-explored nature of the region. Brownfields exploration potential also persists which can provide further upside to the current Resource base. Previous exploration has included airborne geophysical surveys (VTEM), heli-magnetics and gravity survey which have provided a basis for exploration targeting.

VXR control two VMS districts in the Pilbara

Figure 2: Location of VXR's Pilbara assets



Source: VXR

Valuation

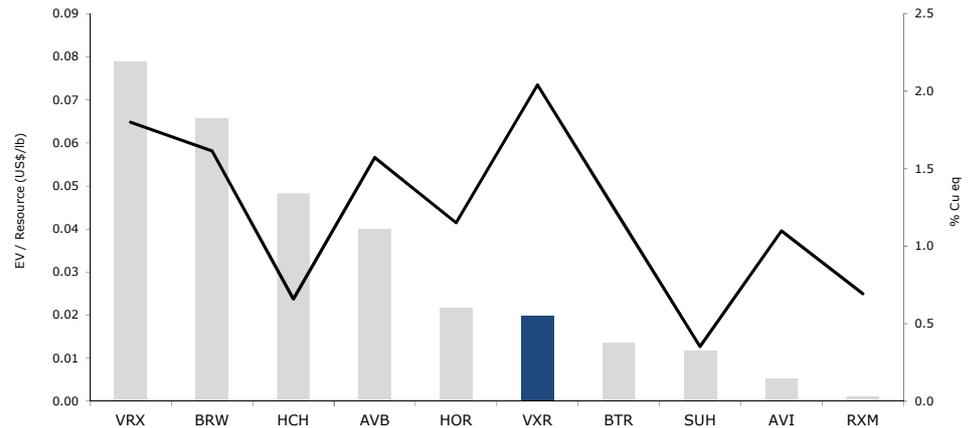
VXR offers relative value in the peer group...

...with the highest Cu Equivalent grade

Offering the highest Cu equivalent grade in the peer group

VXR offers relative value. On the EV/Resource lb metric, the stock is trading at US2.0c v a pre-production peer average of US3.1c, despite offering the highest Cu eq grade.

Figure 3: EV/Resource lb (pre-production peer group)



Source: Argonaut

Results in an implied valuation for VXR at 3.5c

Applying the average multiple results in an implied valuation of 3.5c.

Resource upside with 0.4c/share value accretion for each additional 10% Cu Equivalent tonne

Resources and Reserves

Leverage to new discoveries

The current Resource/Reserve inventory confirms SS as the current 'centre of gravity' to the Pilbara asset base. The copper equivalent grade exceeds the peer group average and the recent results from KC may indicate that grade upside remains, despite the current small size of the Resource. Metallurgical test work undertaken to-date de-risks the mineral processing flow sheet of the feasibility study.

Whilst any new discoveries and material additions to current Resource is likely to be longer-dated, our sensitivity analysis demonstrates NPV accretion in the order of 0.4c for a 10% additional kt of Cu Equivalent Resource.

Table 1: Resources and Reserves of VXR's Pilbara assets

Combined Reserve & Resource Position						
Reserves	Kt	Cu %	Zn %	Pb %	Ag g/t	Au g/t
Whim Creek	1,172	1.24	1.30	0.54	28.44	0.14
Panorama	7,200	1.80	4.30	0.10	18.50	0.00
Total	8,372	1.72	3.88	0.16	19.89	0.02

Resources	Kt	Cu %	Zn %	Pb %	Ag g/t	Au g/t
Whim Creek	7,239	1.30	2.28	0.66	27.18	0.19
Sulphur Springs	19,131	1.17	3.84	0.13	15.79	0.07
Total	26,370	1.20	3.41	0.28	18.92	0.10

Source: Argonaut

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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 this service. Argonaut acts as corporate advisor for VXR and may receive fees commensurate with these services. Argonaut holds or controls 61,102,319 VXR shares.

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