

VENTUREX RESOURCES LIMITED

'Yes Minister'; Sulphur Springs' final step in approvals

Venturex Resources Limited (VXR) continues to progress approvals for its Sulphur Springs Copper-Zinc Project in WA. The project is subject to EPA approval with the EPA concluding its assessment and has now proceeded to consultation with VXR on the implementation conditions. The Company states that this consultation does not imply a final approval but is a key milestone towards achieving Ministerial environmental approval. Certain, confidential conditions are to be met, which we believe are relatively straight forward. Notwithstanding any Ministerial delays, one could anticipate government sign off by the end of this JunQ. This will complete the environmental approvals process with statutory (e.g. ground disturbance and mining) approvals still required, but should proceed relatively quickly compared to the EPA process.

The Company has been awaiting EPA approval for some time with submission of the Company's sixth revision of the Environmental Review Document (ERD) in January 2020, in which it addresses post-closure risks associated with the long-term containment integrity of the proposed Tailings Storage Facility (TSF) and the possibility of mine pit water overflow. Upon consultant with a number of governing bodies, VXR proposes to move the TSF location to within the catchment of the pit, incorporate additional water diversion measures and relocate the portal.

Everchanging landscape for project funding

Although VXR signed a A\$100M term sheet with Trafigura for senior debt funding in August 2019, the market is very different now; with the share price off considerable, commodity prices slumping and increasing market volatility. It's fair to say that at present, funding of Sulphur Springs through conventional debt and equity presents significant challenges. We continue to model the \$100M Trafigura debt, coupled with a \$110M equity requirement, but if trading at 7cps, this is a tall order. We now model new price target scenarios including a 40% asset sell-down as a way to fund the project. We note that major shareholder, NST (19.6%) remains supportive having given a second \$2M loan to the Company in December 2019. Cash is currently \$2.6M (as of 31 Dec '19) with quarterly burn of ~\$0.4M assuming no on-ground exploration. In order to sustain the business into 2021, we assume another NST \$2M loan in 2H20.

Trading at ~Spot Nav; Spec. Buy assuming market recovery

VXR's MD departed in late-2019. A replacement has not been appointed with Executive Director, Antony Reilly now running the business on a fulltime basis for the foreseeable future. We don't see a lack of MD as a concern during this current period of cash preservation and market volatility. While funding of the project clearly needs a rethink, a resolution on EPA approval could be soon on the horizon, which could remove some impediment.

We maintain our Speculative Buy but have adjusted our valuation considerably on account of the share price fall. Our models are fully funded, meaning we dilute for the likely issue of equity to fund a project. With the share price more than halving since our last note (18.5c vs 7c), greater dilution is required to fund Sulphur Springs presently. Our price target for VXR is now 16cps (from 55cps), driven by the underlying drop in valuation, which is 22c (from 54c). Our spot NAV is 9cps. We have increased our weighting in net cash banking given current market and commodity volatility.

20 Mar 2020

Share Price	\$0.067
Valuation	\$0.22
Price Target (12 month)	\$0.16

Brief Business Description:
Base metals explorer & developer

Hartleys Brief Investment Conclusion
VXR is focused on the Sulphur Springs Cu-Zn Project in the Pilbara, which has the hallmarks of a quality mine.

Chairman & MD
Tony Kiernan (Non-Exec Chairman)
Anthony Reilly (Exec Director)

Top Shareholders

Northern Star Resources Limited	19.6%
Regent Pacific Group Ltd	12.5%

Company Address
Level 2, 91 Havelock Street
West Perth, WA 6005

Issued Capital

- fully diluted	283.1m
	285.7m

Market Cap

- fully diluted	A\$19m
	A\$19m

Cash (31 Dec 2019) A\$2.6m

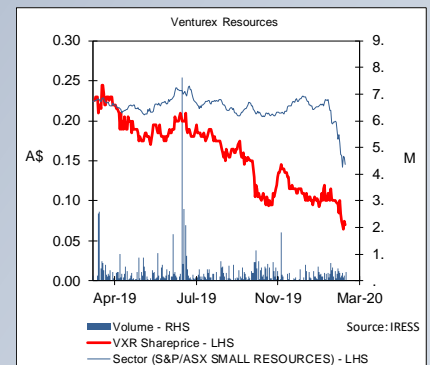
Debt (31 Dec 2019) A\$0.0m

EV -current A\$16.3m

EV - fully diluted A\$16.5m

Prelim. (A\$m)	FY19a	FY20e	FY21e
Prod (Kt CuEq)	-	-	-
Op Cash Flw	-0.9	-2.9	-3.2
Norm NPAT	-1.7	-2.2	-3.9
CF/Share (cps)	-1.0	-1.2	-1.1
EPS (cps)	-1.0	-1.2	-1.1
P/E	-6.9	-5.6	-6.1

	Mt	Cu %	Zn %
Resources	25.9	1.3	3.5
Reserves	8.5	1.4	3.1



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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Venturex Resources Limited (VXR), for which it has earned gross fees and continues to earn fees.

SUMMARY MODEL

Venturex Resources VXR								Share Price \$0.067		20 March 2020 Speculative Buy									
Key Market Information										Directors									
Share Price \$0.067										Tony Kiernan (Non-Exec Chairman)									
Market Capitalisation - ordinary A\$19m										Level 2, 91 Havelock Street									
Net Cash (Debt) \$3m										Anthony Reilly (Exec Director)									
Market Capitalisation - fully diluted A\$19m										West Perth, WA 6005									
EV A\$16.5m										Darren Stralow (Non-Exec Director)									
Issued Capital 283.1m										Trevor Hart (Co. Sec. & CFO)									
Options 2.6										www.venturexresources.com									
Issued Capital (fully diluted inc. all options) 285.7m										Top Shareholders									
Issued Capital (fully diluted inc. all options and new capital) 777.6m										Northern Star Resources Limited									
Valuation \$0.22										Regent Pacific Group Ltd									
12month price target \$0.16										Precision Opportunities Fund Ltd									
										Henghou Industries (Hong Kong) Limited									
										Directors									
										Reserves & Resources									
										Reserves									
										Sulphur Springs									
										Resources									
										Sulphur Springs									
										Kangaroo Caves									
										Indicated									
										Inferred									
										Total									
										Sulphur Springs Mining inventory									
										*at spot prices & 100% recovery/payability									
										Production Summary									
										Mill Throughput									
										Mined grade									
										Combined Recovery & Payability									
										Copper									
										Zinc									
										Silver									
										Copper Eq									
										Copper Eq									
										Modelled mine life									
										Modelled mining inventory									
										Costs									
										Cost per milled tonne									
										EBITDA / tonne milled ore									
										Total cash costs									
										- ex royalties									
										C1: Operating Cash Cost = (a)									
										(a) + Royalty = (b)									
										C1 (Net of Credits)									
										(a) + Royalty = (b)									
										C2: (a) + depreciation & amort. = (c)									
										(a) + actual cash for dev. = (d)									
										C3: (c) + Royalty									
										(d) + Royalty									
										Total cash costs as per P&L									
										All in sustaining cash cost (AISC)									
										SUS/lb Eq									
										Price Assumptions									
										AUDUSD									
										Copper									
										Zinc									
										Silver									
										Hedging									
										Hedges maturing?									
										Sensitivity Analysis									
										Valuation									
										Base Case									
										Spot Prices									
										Spot AUDUSD 0.59, Zinc \$0.83/lb, Copper \$2.19/lb, Silver \$12.53/oz.									
										AUDUSD +/-10%									
										Copper +/-10%									
										Zinc +/-10%									
										Production +/-10%									
										Operating Costs +/-10%									
										Unpaid Capital									
										Year Expires									
										30-Jun-18									
										30-Jun-19									
										30-Jun-20									
										30-Jun-21									
										30-Jun-22									
										TOTAL									
										Share Price Valuation (NAV)									
										100% Sulphur Springs (pre-tax NAV at disc. rate of 12%)									
										Other Asset/Exploration									
										Hedging									
										Corporate Overheads									
										Net Cash (Debt)									
										Tax (NPV future liability)									
										Expected future franking credits									
										Options & Other Equity									
										Total									
										Analyst: Paul Howard									
										+61 8 9268 2805									
										tbc capital could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.									
										Sources: IRESS, Company Information, Hartleys Research									
										Last Updated: 20/03/2020									

VALUATION

Our sum of parts valuation for VXR is based on discounted cashflows and assumes a 10.25 year mine at Sulphur Springs with production from 2H22 after a ~15-month development build time. Given delays in EPA approvals, we have pushed mine commencing out by a further 12 months, which has impacted our current valuation. Our modelling of Sulphur Springs assumes total pre-production capital requirement of A\$190M, and we include a \$20M contingency/working capital to cover delays. We model total sustaining/mine development & infrastructure capital of and additional \$104M for the LOM. We model cashflows for the project with discount rates appropriate for the stage of development.

We model the Sulphur Springs operations in line with the Company's DFS. We assume a nominal \$A40m value for exploration upside potential and include a value for Whim Creek. Given the current capital constraints on the Company, we have lowered our exploration upside value as on-ground works may not be forthcoming in the current economic climate.

Hartleys sum of parts valuation for VXR is 22 cents per share

Fig. 1: Hartleys' Sum of Parts Valuation for VXR

Share Price Valuation (NAV)	Risked Est. A\$m	Est. A\$/share
100% Sulphur Springs (pre-tax NAV at disc. rate of 12%)	199.8	0.257
Other Asset/Exploration	40.0	0.051
Hedging	0.0	0.000
Corporate Overheads	-33.4	-0.043
Net Cash (Debt)	2.6	0.003
Tax (NPV future liability)	-36.8	-0.047
Expected future franking credits	0.0	0.000
Options & Other Equity	0.0	0.000
Total	172.2	0.22

Source: Hartleys' Estimates

PRICE TARGET

Our price target for VXR has decreased to 16cps from 55cps. The underlying drop in valuation has been a big driver for this. Our models are fully funded, meaning we dilute for the issue of equity to fund the project. The share price has more than halved since our last note (18.5c vs 7c), driven by management departures, prolonged permitting delays, commodity price decreases and overall market volatility. In order to fund the project into production, considerable dilution is required, which is challenging at the current share price. We have therefore modelled a new scenario where a 40% asset sell-down occurs; similar to G1A.asx. Given the current market volatility and risk (CORVID-19 impact), we have increased our net cash backing weightings for now. We continue to include takeover, metallurgical challenges and net cash backing scenarios.

Hartleys 12-month price target is 16 cents per share

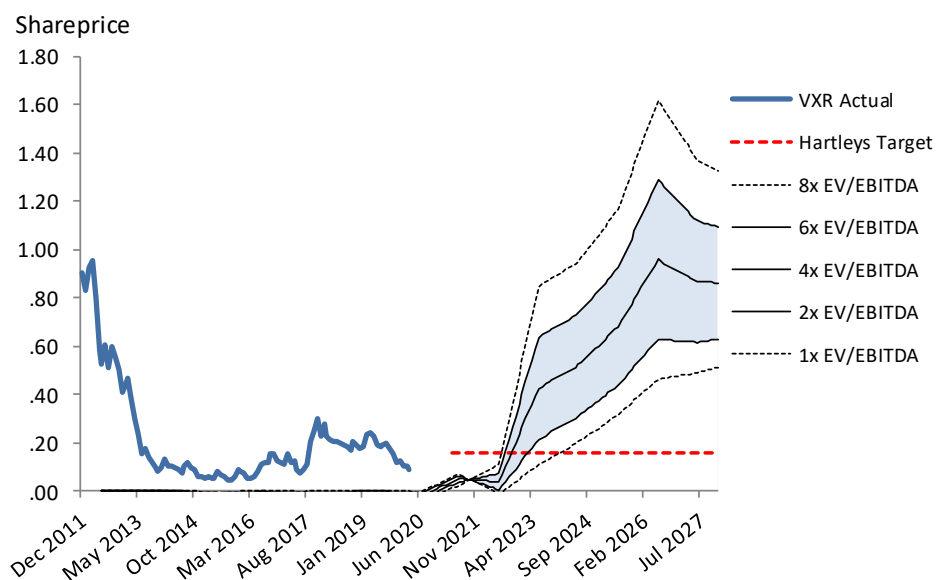
Fig. 2: VXR Price Target Methodology

Price Target Methodology	Weighting	Spot	12 mth out
NPV12 base case	20%	\$0.22	\$0.25
NPV12 base case at spot commodity and fx prices	5%	\$0.09	\$0.10
Exploration success: 1 additional year of LOM	5%	\$0.24	\$0.27
Acquired by a mid-tier/major	5%	\$0.18	\$0.20
Lower recoveries in Year 1	10%	\$0.21	\$0.23
Alternative funding: 40% asset sell-down for A\$70M	10%	\$0.28	\$0.31
Further delays (6 months) to construction due to approvals	10%	\$0.19	\$0.21
Net cash backing	35%	\$0.01	\$0.01
Risk weighted composite			\$0.14
12 Months Price Target			\$0.16
Shareprice - Last		\$0.07	
12 mth total return (% to 12mth target + dividend)			124%

Source: Hartleys' Estimates

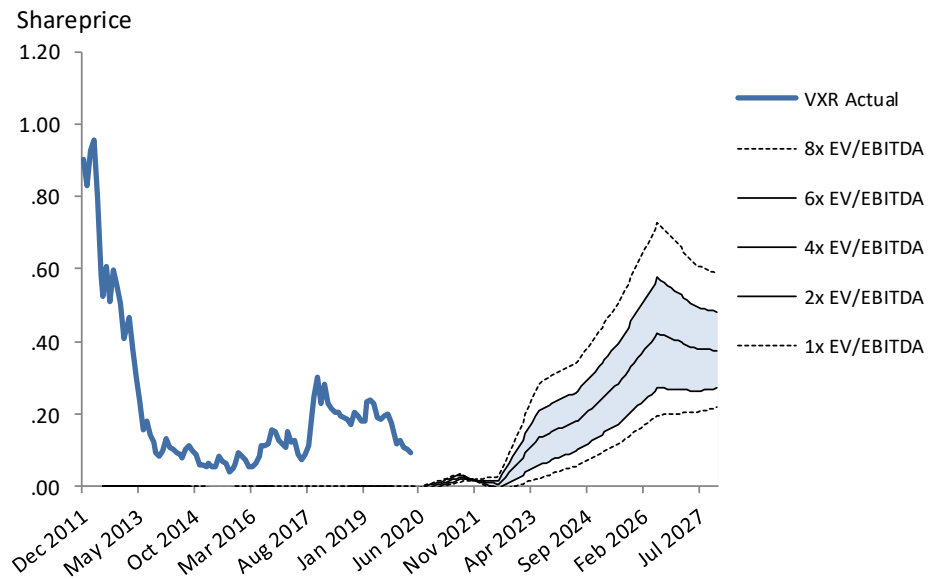
EV/EBITDA BANDS

Fig. 3: Using Hartleys' base case commodity forecasts



Source: Hartleys' Estimates, IRESS

Fig. 4: Using spot commodity prices



Source: Hartleys' Estimates, IRESS

RISKS

Fig. 5: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
10.25-year mine life at Sulphur Springs (1.25Mtpa)	Low-Moderate	Meaningful	We model a 10.25-year mine life, which we generate from the DFS mine inventory and applied to a 1.25Mtpa plant.
Model parameters	Moderate	Meaningful	We have made a number of large assumptions in our valuation of VXR, changes in these assumptions can change our valuation to both the upside and downside.
Recoveries and payabilities for supergene ore	Moderate	Meaningful	Flotation of the supergene ore is unconventional and attracts risk.
Mining method	Moderate	Meaningful	Modified sub-level caving presents risk with potential water ingress through the pit floor.
Exploration upside potential	Moderate	Meaningful	We assume exploration upside at Sulphur Springs and further afield along the Panorama Trend. Some downside risk to our valuation exists if VXR has no exploration success.
Funding	High	High	We model a mix of debt (A\$100M) and equity (A\$100M) funding. We model debt comprising the Trafigura pre-payment (A\$100M) and note that NST could further assist with funding.
Orebody Risk	Low to Medium	Meaningful	As with all orebodies there is risk around geology, geotech and metallurgy.
Commodity prices	Moderate	High	VXR is reliant on commodity prices maintaining consensus performance but is not economic at current spot prices.
Conclusion	<i>We have made significant assumptions but believe these are achievable. Funding, metallurgy in the early years and commodity prices present the biggest risk in our view.</i>		

Source: Hartleys' Research

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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