Analyst
David Coates 612 8224 2887

Authorisation
Stuart Howe 613 9235 1856

Aeris Resources Ltd (AIS)

Do you like copper?

Recommendation	
Buy (Initiation)	
Price	
$0.195	
Target (12 months)	
$0.23 (unchanged)	

GICS Sector

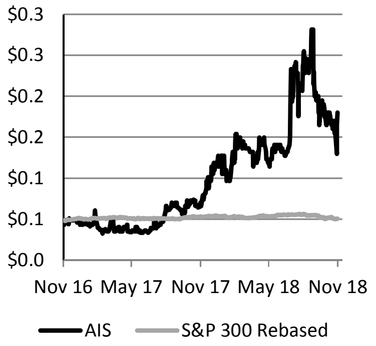
Materials

Expected Return	
Capital growth	17.9%
Dividend yield	0.0%
Total expected return	17.9%
Company Data & Ratios	
Enterprise value	$103.5m
Market cap	$88.9m
Issued capital	455.7m
Free float	56%
Avg. daily val. (52wk)	$52,600
12 month price range	$0.066-$0.286

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.18	0.21	0.07
Absolute (%)	2.9	-14.7	176.7
Rel market (%)	1.9	-6.3	181.2

Absolute Price



SOURCE: IRESS

Highly leveraged copper play

AIS is an ASX-listed copper producer whose primary asset is its 100% owned Tritton Copper Operation in NSW. Currently, two active underground mines produce ~1.6Mtpa of ore for production of ~25ktpa copper in concentrate. Production guidance for FY19 is 24.5kt copper in concentrate at a C1 cash cost of A$2.75-A$2.90/lb. This makes AIS a relatively high cost producer, as such its financial performance is highly leveraged to the copper price. AIS currently has a 5 year life-of-mine plan to FY23, targeting average production of 24ktpa copper in concentrate. AIS also has a 70% interest in the Torrens JV, a large scale IOCG target in the highly prospective Stuart Shelf in South Australia. AIS has recently completed a major debt restructure, which has seen gross debt reduced from US$136m in 2013 to US$29m now. Following an A$35.1m equity raise in September 2018 we estimate a cash position of ~A$25m.

Capital restructure complete

Following the completion of its debt restructure and equity raising, AIS now has a more manageable balance sheet combined with an established copper operation providing a platform for growth. This represents a key step in AIS realising its strategic objective to become a mid-tier, multi-mine copper producer – a key tenet of our investment thesis. The management team's demonstrated track record of generating strong operational cash flows from Tritton and success in capital restructuring (where further opportunities exist) are also key to our investment view.

Investment thesis – Buy, Target price $0.23/sh

AIS represents a highly leveraged copper exposure through both its Tritton operations and the potential for exploration success at the Torrens JV. With the balance sheet strengthened and capital restructured, we now see an attractive entry point into a company well placed to become the next mid-tier copper producer on the ASX. We initiate with a Buy recommendation and NPV-based target price of $0.23/sh.

Earnings Forecast

Year end 30 June	2018a	2019e	2020e	2021e
Sales (A$m)	236	223	231	229
EBITDA (A$m)	105	53	60	54
NPAT (reported) (A$m)	55	16	24	21
NPAT (adjusted) (A$m)	55	16	24	21
EPS (adjusted) (¢ps)	30.9	4.3	5.2	4.6
EPS growth (%)	nm	-86%	19%	-11%
PER (x)	0.6	4.5	3.8	4.3
FCF Yield (%)	61%	18%	21%	33%
EV/EBITDA (x)	1.0	1.9	1.7	1.9
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	199%	20%	20%	15%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

Investment thesis and valuation

Investment thesis – Buy, Target price $0.23/sh

Our investment thesis is predicated on:

- AIS offering a highly leveraged exposure to the copper price;
- Reliable production from an established operation in an attractive jurisdiction with excellent infrastructure;
- Demonstrated operation cash flow generation through disciplined cost control;
- Strong management team with a track record of value accretive debt re-structuring; and
- Exposure to exploration success in a highly prospective IOCG province in South Australia as well as through potential mine life extensions at Tritton.

Leveraged copper exposure

AIS offers leveraged copper exposure as a producer with a valuation highly sensitive to the copper price. For a ±5% move in the copper price we estimate a ±28% swing in AIS NPV-based valuation, implying 5.6x leverage. Clearly this works in both directions but if you are looking for an exposure to positive moves in the copper price, AIS is hard to beat. At this point we view downside as relatively limited, with our sensitivity analysis calculating a low-end NPV-based valuation of A$105m, or $0.165/sh, approximately 15% below the current share price. Our upper-end NPV-based valuation of A$186m equates to $0.29/sh, or 49% above the current share price. Both these valuations are on a fully diluted basis.

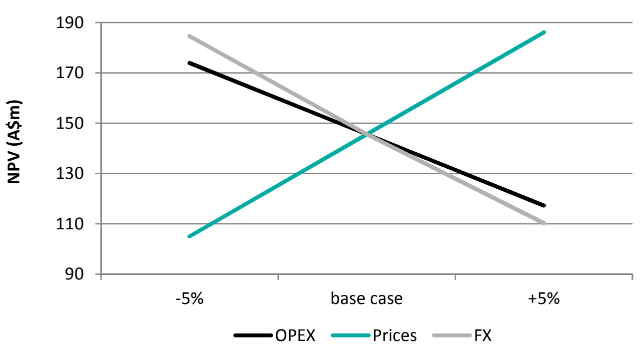
The outputs of our valuation sensitivity analysis are shown in the following table and chart:

Figure 1 - AIS valuation sensitivity analysis

	NPV (A$m)		
	-5%	base case	+5%
Prices	$105.1 -28%	$145.6 0%	$186.2 28%
FX	$184.7 27%	$145.6 0%	$110.3 -24%
OPEX	$174.0 19%	$145.6 0%	$117.3 -19%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 2 – AIS sensitivity chart



SOURCE: BELL POTTER SECURITIES ESTIMATES

Reliable production and operational cash flow generation, attractive jurisdiction

The Tritton copper mine and concentrator has been in production since 2005. Over that time we estimate copper in concentrate production of ~320,000t of copper in concentrate from mined production of 15.7Mt @ 2.1% Cu. Over the last three financial years Tritton has generated operational cash flows of $79m. While the bulk of this has been reinvested into the operations it shows disciplined cost control through the cycle and the ability to fund sustainable operations.

This has been assisted by the Tritton operations being set in an attractive, stable, well serviced jurisdiction. It benefits from a sealed road to site, a proximal main-line rail loading point to Newcastle and a grid power connection.

Management team with a track record of value accretive debt re-structuring

The current AIS management team has been in place since 2013 and one of the key achievements during that time has been the restructuring of the balance sheet and AIS' capital structure. Two major financial restructures have been completed: one in December 2015 and one in February 2018. These have been significantly value accretive to shareholders with total debt reduced from US$136m in June 2013 to US$29m as at October 2018.

More recently the share capital of the company was reduced by 50%, with 467.0m (80%) of the Convertible Redeemable Preference Shares (CRPS) held by SCB redeemed for $1 and subsequently cancelled. 93.4m CRPS remaining outstanding with SCB and the redemption and cancellation of these is a remaining capital restructuring opportunity that would be materially value accretive to shareholders.

Exposure to exploration success

The two key opportunities here are mine life extensions at Tritton and the possibility of a major discovery at the Torrens JV in South Australia.

At Tritton, we estimate a total mineral endowment (all historic production plus current Mineral Resources) of 48Mt @ 1.8% Cu for ~860,000t contained copper, making the project one of the major copper fields in Australia. The tenements cover 1,800km^2 and are significantly under-explored. AIS' advancing understanding of the key regional geological structures, the technological development of more effective geophysical exploration tools (which have a track record of success at Tritton) and a lack of drilling in highly prospective areas represent significant opportunities for further exploration success and potential mine-life extension at Tritton.

The Torrens JV in South Australia has been held up for ten years by Native Title claims until March 2018 when they were dismissed on appeal and Aboriginal heritage clearances were granted. It is an IOCG target with a footprint in excess 120km^2 (larger footprint than Olympic Dam). It is hosted in the Stuart Shelf geological setting, the prospectivity of which was recently demonstrated by BHP, which announced the successful intersection of wide, high grade mineralisation (including 425.7m @ 3.04% Cu, 0.59g/t Au, 346ppm U and 6.03g/t Ag from 1,063m) from a project in close proximity to the Torrens JV.

Valuation methodology

Our valuation for AIS is based upon the 12-month forward NPV of our forecast free cash flows from the Tritton Copper Operations, based on the current 5 year mine plan and net of corporate administration costs. This is included in a sum-of-the-parts valuation for the company which also includes a notional estimate for the value of the exploration potential of the balance of the Tritton tenements and the Torrens JV in South Australia. We currently assume no mine life extension in our Tritton NPV, so our exploration valuation also aims to capture some of that potential.

Table 1 – AIS sum-of-the-parts valuation

Sum-of-the-parts (+12 month Target Price)	$m	$/sh
Project (un-risked NPV10)	103.9	0.23
Other exploration	50.0	0.11
Subtotal	**153.9**	**0.34**
Net cash (debt)	(8.2)	(0.02)
Total (undiluted)	**145.6**	**0.32**
Dilutive effect of options		(0.09)
Add cash	-	-
Total (diluted)	**145.6**	**0.23**

SOURCE: BELL POTTER ESTIMATES

With upside of 17.9% from the current share price to our valuation, we make a Buy recommendation in conformity with our rating structure.

AIS background and asset review

Company description

AIS is an ASX-listed copper production and exploration company whose primary asset is its 100% owned Tritton Copper Operations, located approximately 60km by road north-west of the town of Nyngan in the central west of NSW. Copper concentrate production commenced at Tritton in 2005 and has since averaged ~24ktpa copper in concentrate. Supplementary production has also come from the recovery of residual copper from historic heap leach pads via a copper cementation plant.

Currently, two active underground mines (Tritton and Murrawombie) produce a combined ~1.6Mtpa of ore for processing through the Tritton concentrator for production of ~25ktpa copper in concentrate. Production guidance for FY19 is 24.5kt copper at a C1 cash cost of A$2.75-A$2.90/lb. AIS currently has a 5 year life-of-mine plan to FY23, targeting average production of 24ktpa copper. From FY20, production from the existing mines will be supplemented by new operations at the planned Avoca Tank underground, Budgery open-pit and potential underground and Murrawombie open-pit mines. Opportunities to extend the Resource base and mine lives of all these deposits is the focus of an ongoing exploration program which is targeting depth extensions at Tritton and Murrawombie as well as building on recent exploration success across the Tritton tenements.

Beyond the Tritton operations the key exploration focus is the Torrens JV in South Australia, in which AIS has a 70% interest. The Torrens project is targeting large scale Iron-Oxide-Copper-Gold (IOCG) deposits in the highly prospective Stuart Shelf. Stage 1 of first major drilling program at Torrens in ten years is set to commence in 2019. We point out the Torrens JV lies in very close proximity to BHP’s own Stuart Shelf exploration project, where it recently intersected wide, high grade mineralisation that it felt was material enough to the company to specifically announce to the market.

Strategically, AIS also holds the objective of becoming a multi-mine, mid-tier copper producer through both organic growth and M&A.

Tritton Copper Operations

Overview

The Tritton Copper Operations are located approximately 60km by road north-west of the town of Nyngan in the central west of NSW. Site access and infrastructure is excellent. Accommodation and messing facilities are established in Nyngan, site access is via the Barrier Highway to Hermidale and then ~15km via sealed road to site. Hermidale is also the location of the rail loading point, to where Tritton’s copper concentrate is trucked from site for rail transfer to Port Waratah in Newcastle where it is shipped to international markets. Tritton is also connected to grid power, a key infrastructure advantage.

Initial commercial operations in the Tritton area commenced in 1992 with the mining of the Murrawombie open-pit and processing of its copper oxide ore by heap-leach and solvent-extraction-electro-winning (SXEW) methods. In 1995, exploration by Straits Resources (now Aeris Resources) discovered the Tritton volcanogenic massive sulphide (VMS) copper deposit. The discovery was assisted by a collaboration with the Commonwealth Scientific and Industrial Research Organisation (CSIRO) and the utilisation of early Electro Magnetic (EM) geophysical exploration tools.

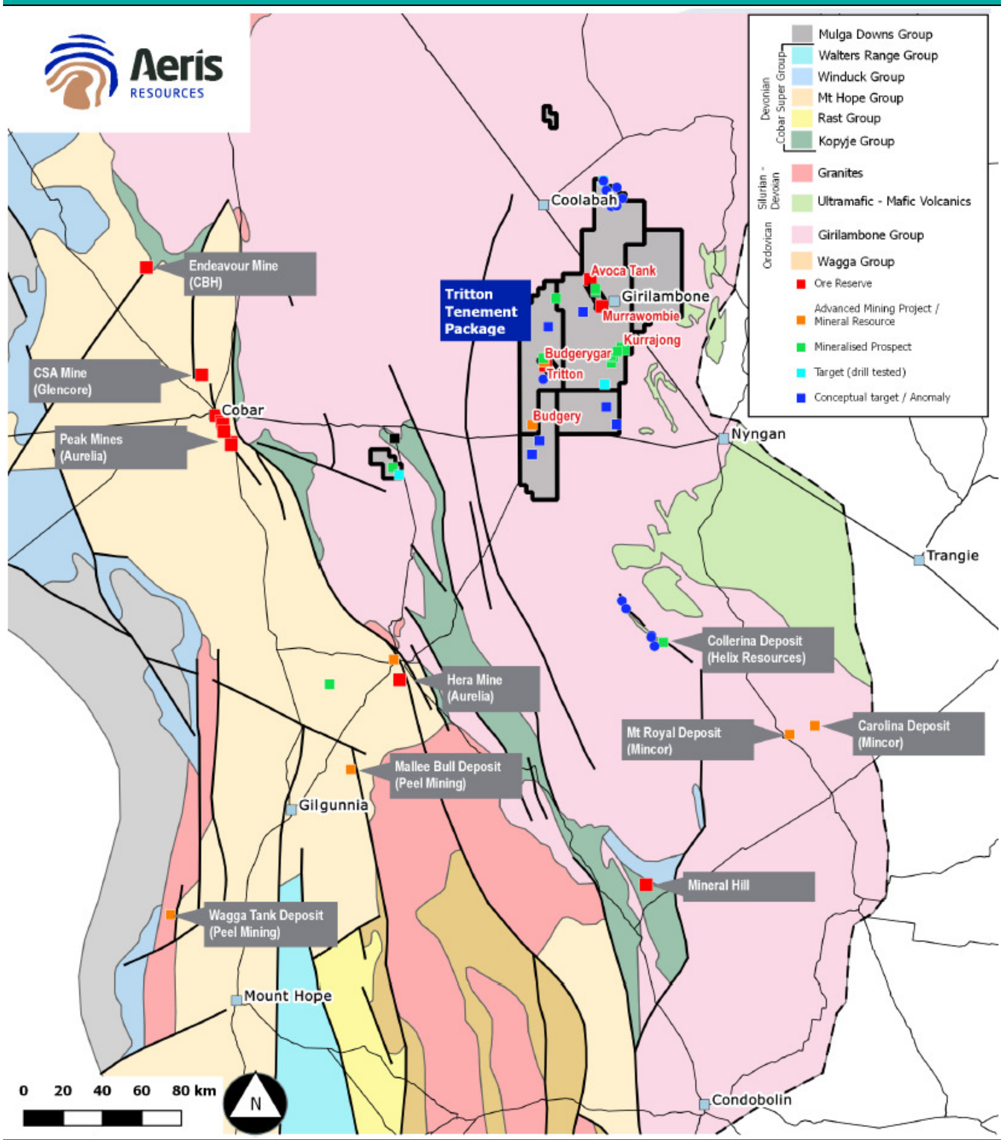
However, it wasn’t until February 2004 that construction commenced for the subsequent commissioning of the operation in December that year. Since commencing production in 2005, we estimate the Tritton mining operations (excluding copper cement production) have produced ~320,000t of copper in concentrate from mined production of 15.7Mt @ 2.1% Cu.

Combined with the current Resource base this implies a mineral endowment of 36.4Mt @ 1.74% Cu containing over 630,000t of copper. This is exclusive of the Murrawombie oxides and other historic operations on the tenements, for which AIS estimates a total mineral endowment of 48Mt @ 1.8% Cu for ~860,000t contained copper.

Current operations comprise:

- The Tritton underground mine (producing ~1.1Mtpa ore);
- The adjacent Tritton concentrate processing plant (current throughput ~1.6Mtpa);
- A cement paste fill plant for backfilling of the Tritton underground;
- The Murrawombie underground mine (producing ~0.5Mtpa ore), located 22km by sealed road to the north-east of Tritton; and
- A copper cementation plant, recovering residual copper from the historic copper oxide heap leach pads mined from Murrawombie and Girilambone.

Figure 3 - Tritton Operations regional setting



SOURCE: COMPANY DATA

Tritton Copper Operations summary

The summary below outlines key historic, current and forecast operating metrics for the Tritton Copper Operations.

Location: 60km north-west of Nyngan, NSW.

Tenements: Approximately 1,800km^2 consisting of several Exploration Leases (EL's) and three Mining Leases (ML's).

Operating currency: Australian dollar.

Stage: Production. Operations currently comprise sulphide ore production from the Tritton underground mine (~1.1Mtpa) and the Murrawombie underground mine (~0.5Mtpa). The current 5 year Life-Of-Mine (LOM) plan to FY23 envisages production from these two mines underpinning production until FY22, supplemented in latter years by the commencement of production from the planned Avoca Tank underground, the potential open-pit and underground mine at Budgery and the cutback and depth extension of the Murrawombie open-pit.

Resources: 20.7Mt @ 1.5% Cu for 310kt contained copper (June 2018).

Reserves: 8.5Mt @ 1.5% Cu for 130kt contained copper (June 2018).

LOM: 5.3 years (Reserves), 12.9 years (Resources) - based on 1.6Mtpa throughput.

OPEX: We calculate C1 cash costs based on the following unit cost estimates: Mining costs: ~A$55/t, processing costs: A$16/t, site G&A: ~A$11/t, concentrate logistics and TC/RC's: ~A$21/t, by-product credits: ~-A$8/t for a total of A$95/t.

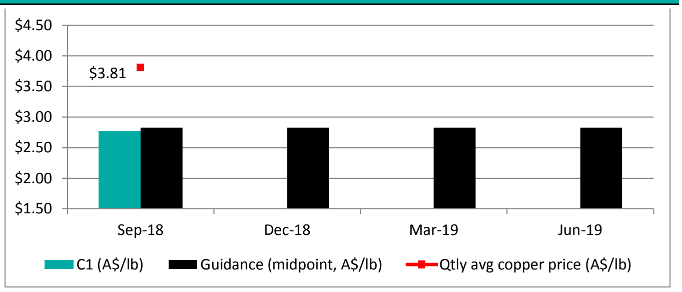
CAPEX: The Tritton mine and concentrator were constructed in 2004 by Tritton Resources Ltd, for pre-production CAPEX of A$39m. The project sourced sulphide ore from the Murrawombie open pit and Tritton underground for processing through the 900ktpa nameplate processing plant.

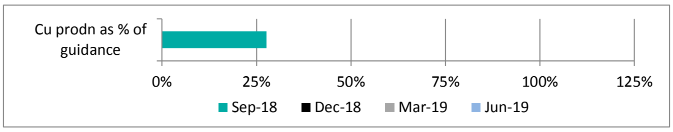
Sustaining and mine development CAPEX: A$30-35m pa.

Production and cost guidance: FY19 production guidance of 24.5kt copper in concentrate at C1 cash cost between A$2.75/lb and A$2.90/lb. The September 2018 quarter was a strong start to FY19 with 6.8kt copper produced at C1 cash costs of A$2.77/lb.

Figure 4 – AIS quarterly production monitor – FY19

Aeris Resources (AIS)	Sep-18	Dec-18	Mar-19	Jun-19	YTD
Copper production					
Reported production (t Cu)	6,753				**6,753**
Guidance (midpoint, t Cu)	6,125	6,125	6,125	6,125	**24,500**
Cumulative progress (%)	27.6%	-	-	-	**27.6%**
Costs					
C1 (A$/lb)	$2.77				**$2.77**
Guidance (midpoint, A$/lb)	$2.83	$2.83	$2.83	$2.83	**$2.83**
Variance vs guidance (%)	-1.9%	-	-	-	**-1.9%**





SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Mining: Underground mining on an owner-operator basis. Primary mining method at Tritton is standard mechanised sub-level-open-stoping (transverse and longitudinal) from the top down, with cemented paste fill reticulated underground from a surface paste plant. Haulage is by truck and decline utilising Sandvik 621 loaders and 63t underground haul trucks. The Tritton mine currently has Reserves to 1,250 metres below surface (mbs) and Resources to 1,350mbs. Mine refrigeration may be required from 1,300mbs.

Processing: The Tritton processing plant was expanded to 1.6Mtpa in 2007. The concentrate processing plant is located adjacent the Tritton underground mine and comprises a standard crush-grind-float circuit to process sulphide ore and produce a marketable copper concentrate. Grinding is to 75µm and the site benefits from grid power. The flotation circuit produces ~120ktpa of concentrate grading 22-24% Cu. The Tritton operations also include a copper cementation plant at Murrawombie which recovers residual copper from the historic Girilambone heap leach pads.

Recoveries: Copper recoveries consistently ~94-96%.

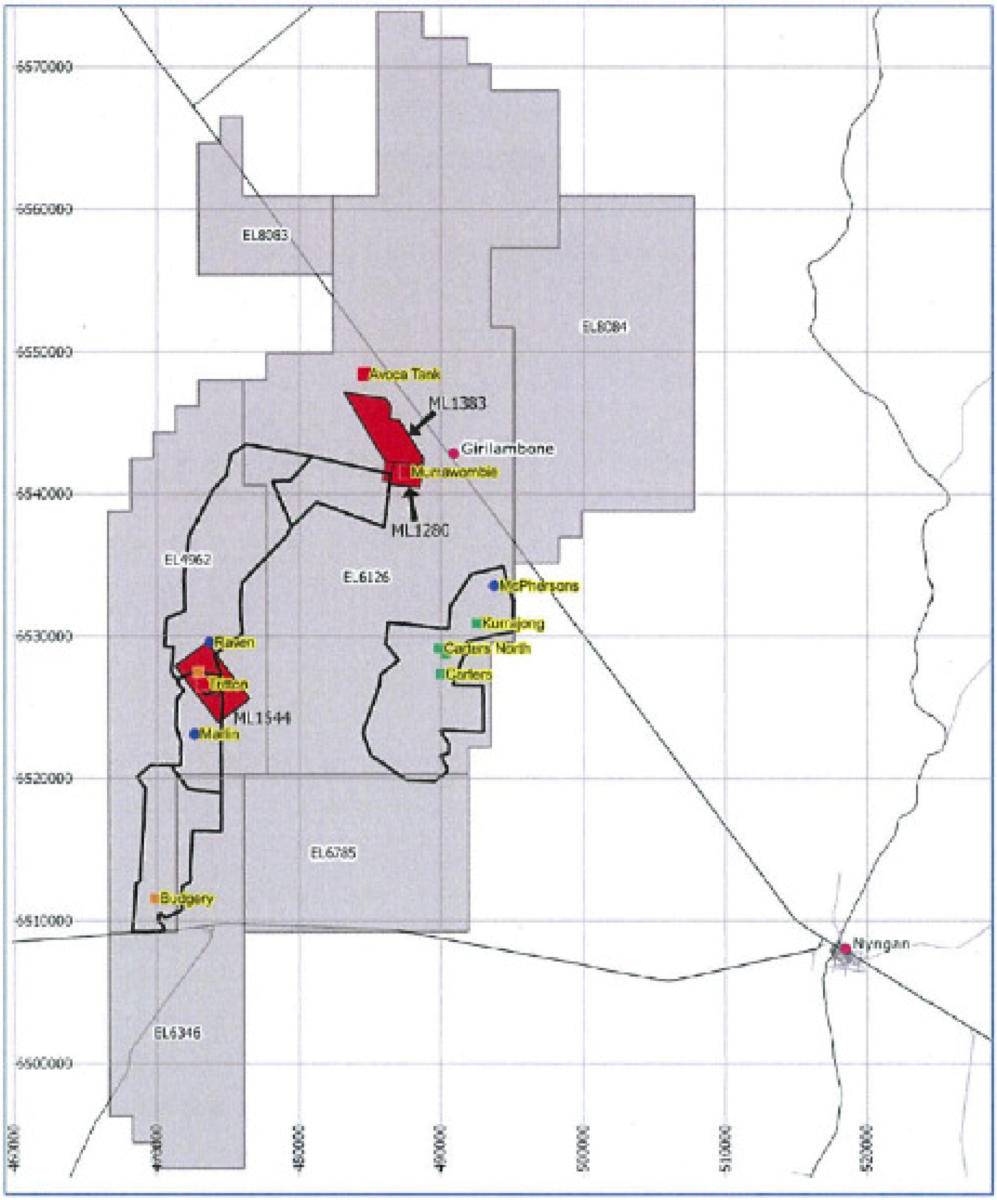
Logistics: Copper concentrate is trucked ~15km from the Tritton concentrator to a main-line loading point at Hermidale. Weekly concentrate shipments of ~2kt are railed to Newcastle to be shipped from Port Waratah under an offtake agreement with Glencore.

Steady state / target production: The current mine plan is targeting average annual copper production of 24ktpa over the next five years from multiple underground mines and two prospective open-pits.

Geology, Mineral Resources and Ore Reserves

The Tritton Copper Operations cover ~1,800km^2 of the highly prospective Girilambone Group, mid-Ordvician sediments of the Lachlan Fold Belt. The tenement holdings are predominantly EL's stretching over 70km from north to south and include three ML's granted over the Tritton and Murrawombie deposits.

Figure 5 - Tritton Operations project location and tenement package

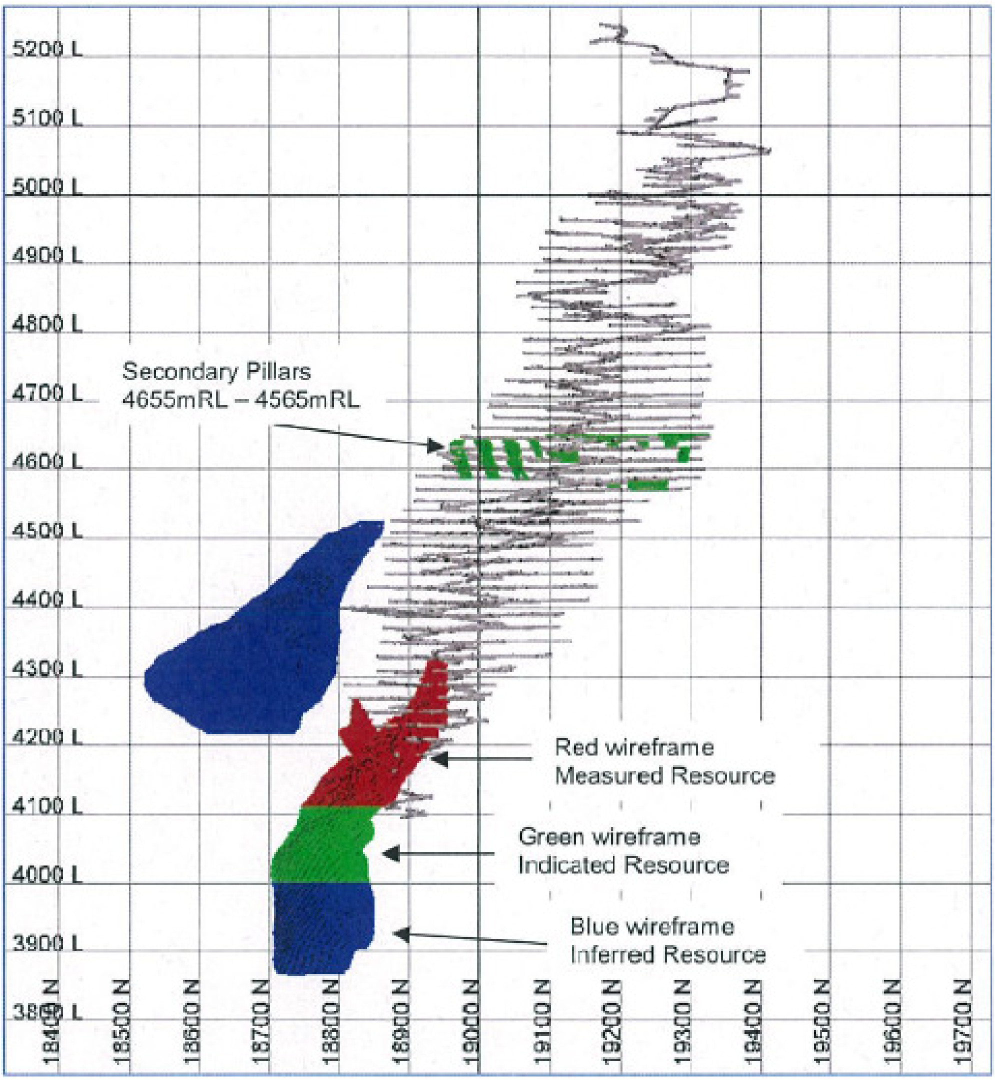


SOURCE: COMPANY DATA

While early exploration and production focussed on copper oxide deposits, the Tritton project area is a proven host of clustered VMS copper ore bodies. The Tritton deposits are classified as Besshi-style VMS deposits, characterised by banded sulphide zones with massive sulphide lenses, dominated by pyrite (non-copper bearing) with lesser chalcopyrite being the main copper bearing mineral. Sphalerite (zinc bearing) and moderate gold and silver are also present. Copper grades are typically 1-3% Cu, with average gold and silver grades ~0.1g/t Au and ~5g/t Ag respectively.

The Tritton deposit itself is a tabular sheet of banded sulphides commencing from ~150mbs, plunging 30-50 degrees to the south-east with an overall down dip length of 1,500m. Thickness varies from 6-8m in the upper zone to 70m at depth with a typical strike of 250-300m. It has been drilled to ~1,350mbs and remains open at depth. In addition to this, strike extensions to the main Tritton deposit have been identified from ~700mbs – the South Wing and the North Wing. The South Wing is included in the Inferred Resources but the North Wing remains subject to drilling.

Figure 6 - Tritton copper deposit – long section through June 2018 Mineral Resource



SOURCE: COMPANY DATA

Murrawombie is located 22km by road north of the Tritton deposit and consists of multiple stacked sulphide lodes, with the bulk of the Ore Reserve made up of the 101 and 102 lodes. The deposit commences near surface with copper oxide ore mined historically by open-pit methods. In 2004 a parcel of sulphide ore was mined from the pit in order to commission the Tritton concentrator and an open-pit sulphide Reserve has been defined for extraction from the base of the pit upon the completion of underground mining at Murrawombie. The current defined deposit commences ~80mbs (the open-pit extends to ~130mbs) with the sulphide lode dimensions running ~90-900m down-dip, 50-250m along strike with thickness averaging 5-10m but up to 30m. The Resource has been interpreted to 650mbs and remains open at depth. It has been closed off along strike.

The latest Resource and Reserve statements are summarised in the tables below:

Table 2 - Tritton operations total Mineral Resource (at 30 June 2018 0.6% cut-off-grade)

	Ore (Mt)	Copper grade (% Cu)	Gold grade (g/t Au)	Cu contained (kt)	Au contained (koz)
Measured	3.800	1.70%	0.13	64.6	15.9
Indicated	10.270	1.55%	0.25	159.4	83.1
Inferred	6.630	1.33%	0.14	87.9	29.7
Total	**20.700**	**1.51%**	**0.19**	**311.9**	**128.7**

SOURCE: COMPANY DATA

Table 3 - Ore Reserve Statement – Tritton operations total Reserves (at 30 June 2018, 1.2% cut-off-grade)

	Ore (Mt)	Copper grade (% Cu)	gold grade (g/t Au)	Silver grade (g/t Ag)	Cu contained (kt)	Au contained (koz)	Ag contained (koz)
Proven	3.400	1.50%	0.10	5.1	51.000	10.931	557.494
Probable	4.900	1.51%	0.18	4.3	73.800	28.293	684.168
Total	**8.300**	**1.50%**	**0.15**	**4.7**	**124.8**	**39.2**	**1,241.7**

SOURCE: COMPANY DATA

Precious metal grades have been reported for the first time in the 2018 Resource and Reserve statements, due to the production of concentrate with gold grades that are consistently above the minimum payable limit (1.0g/t Au). This has been achieved since 2017 with the blending of ore from the Murrawombie deposit which has a higher gold content than the Tritton deposit. Silver grades in the concentrate have historically been payable, but the revenue contributions minimal (we estimate ~A$4-A$5m per annum). Now, combined with payable gold credits, we estimate a more material contribution to revenues of A$10-A$12m per annum.

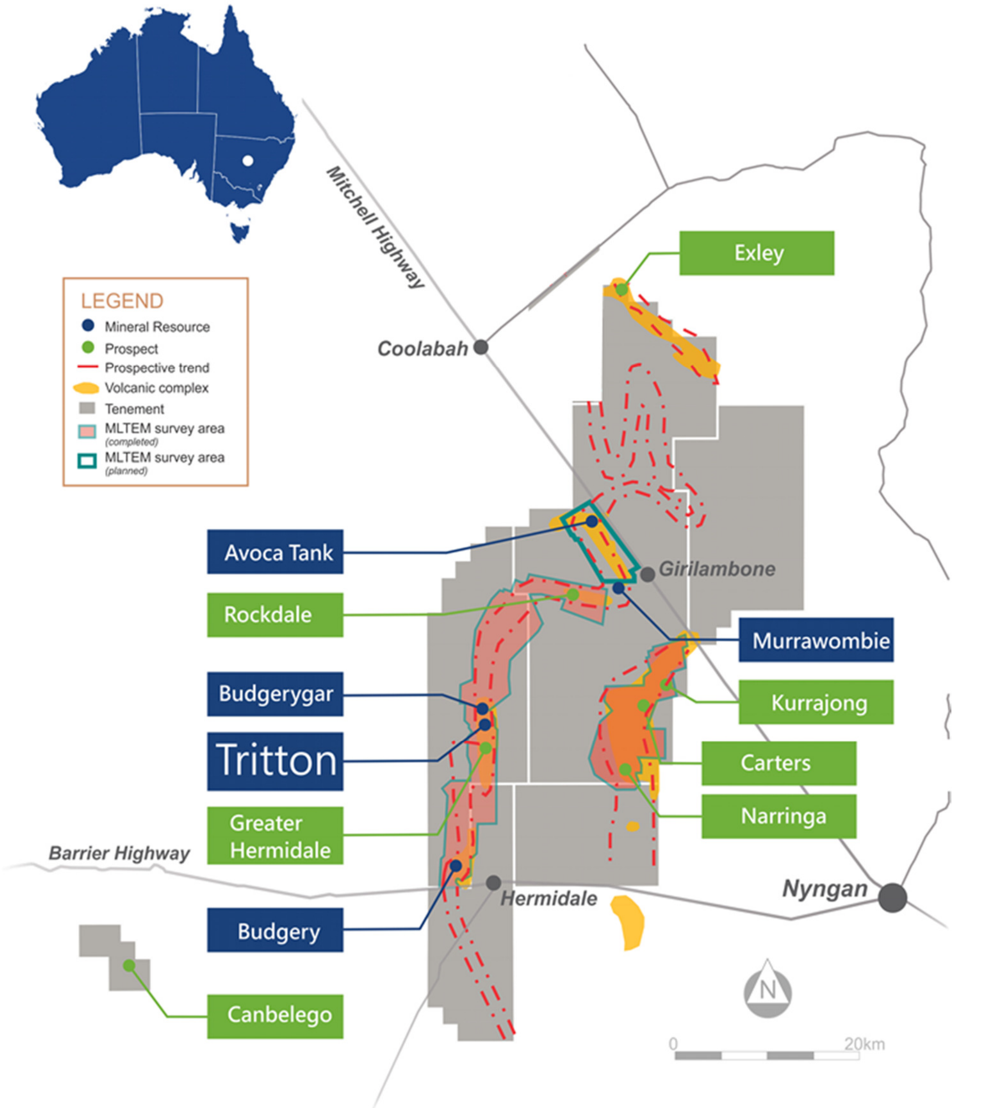
Reconciliation data for stopes mined over the FY2016-FY2018 typically shows a variation between claimed modelled tonnes and grade vs reconciled production tonnes and grade of ±3%. We estimate that over the three year period reconciled mill production tonnages are ~1.7% below modelled tonnes and reconciled mill grades ~1.7% below the modelled grade, implying a slight overcall. Overall, these are very good reconciliations and indicate reasonable assumptions for the Reserve and Resource models.

Exploration budget and strategy

In 2016 AIS announced a two-year, $7.5m exploration program with the strategic objective of discovering another Tritton-style deposit of greater than 10Mt. This has been successful in advancing AIS' understanding of the Tritton tenements and generating a range of new targets and prospective corridors. We model a similar spend to be maintained over the next two years.

One of the recent key developments in AIS' geological understanding has stemmed from a regional mapping program which identified significant extensions to a stratigraphic package referred to as the Budgery Sandstone Unit. While it had been recognised that several of the known deposits at Tritton were associated with this, the Unit had not been comprehensively mapped. It has now been traced a further 65km along strike through the northern half of the Tritton tenement package. It is described as the Tritton Stratigraphic corridor and runs from the Budgery deposit in the south to the Exley prospect in the north.

Figure 7 - Tritton Operations geology and newly identified prospective corridor



SOURCE: COMPANY DATA

Correlating the newly mapped prospective corridor with another of the key exploration datasets at Tritton, being various electro-magnetic (EM) surveys, has identified a number of coincident or proximal anomalies that enhances the prospectivity of the corridor and generates multiple new drill targets. Lack of drilling outside the known deposits along this corridor show it to be substantially under-explored and a major opportunity for AIS.

Various EM techniques have been deployed quite successfully at Tritton over the last two decades. Collaboration with the CSIRO using early technologies resulted in the discovery of the Tritton deposit itself in 1995. Since then, ground based methods and airborne methods (including more powerful Moving Loop EM – MLTEM, and Versatile Time domain Electro Magntics – VTEM) have been effective exploration tools due to their ability to detect sulphides at depth and were instrumental in the discovery of the Kurrajong deposit.

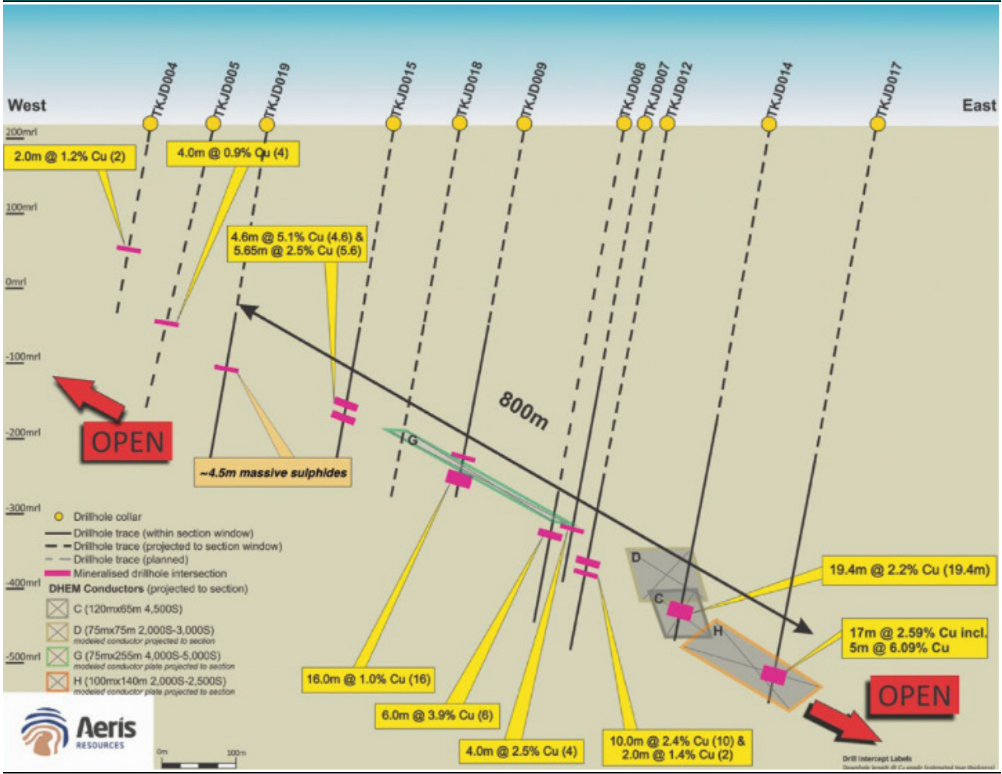
Kurrajong

This deposit has been one of the key focuses of the current exploration program and where newly generated targets from the 2017 MLTEM survey have been successfully drill-tested. Highlights from a 6-hole drill program include the following results:

- 19.4m @ 2.18% Cu, 0.3g/t Au and 7g/t Ag from 676m (TKJD014);
- 4.6m @ 5.09% Cu, 0.79g/t Au and 17g/t Ag from 403m (TKJD015); and
- 17m @ 2.59% Cu, 0.3g/t Au and 7g/t Ag from 753m (TKJD017).

High grade mineralisation has now been traced over 800m down plunge and EM survey data implies potential strike extensions. Kurrajong remains one of AIS key targets at Tritton and will be the focus of a planned follow-up drill program of 12 holes, likely in FY19.

Figure 8 – Kurrajong cross-section with drill hole traces and interpreted EM plates



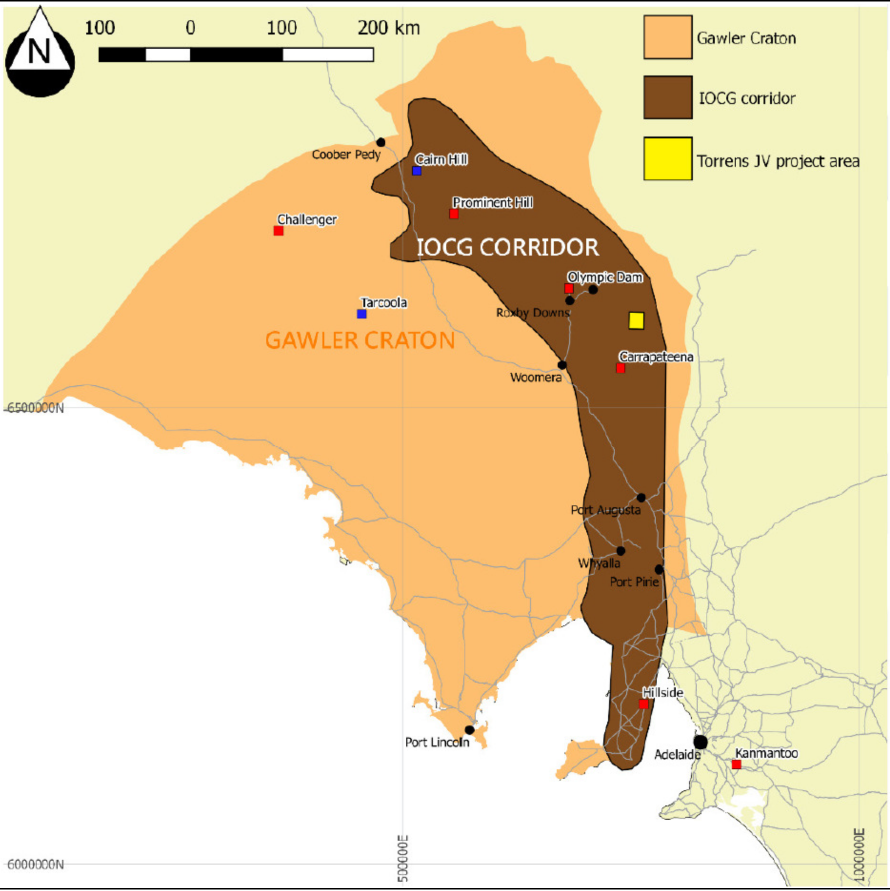
SOURCE: COMPANY DATA

Torrens JV (South Australia)

The Torrens Project is a joint venture between AIS (70%) and Argonaut Resources NL (ARE) and is exploring for IOCG systems within the highly prospective Stuart Shelf region of South Australia. The project lies within 50km to the north of OZ Minerals' (OZL) Carrapateena deposit and 75km to the south-east of BHP's Olympic Dam mine. Torrens is a confirmed IOCG system showing copper sulphides (chalcopyrite and bornite) associated with iron oxides (magnetite and hematite) and the alteration minerals and zonation signatures of an IOCG system. Drilling had been held up by Native Title claims until March 2018 when they were dismissed on appeal and Aboriginal heritage clearances were granted.

A major drill program is now planned for 2019 which will target a significant coincident magnetic and gravity anomaly with a footprint in excess 120km² (larger footprint than Olympic Dam). Approvals have been received for the drilling of up to 70 deep diamond holes, with Stage 1 of the program likely to comprise 20-30 holes drilled to 700-1,500mbs into 8-10 priority targets. AIS has allocated a budget of A$3.5m (70%) over 12-18 months.

Figure 9 - Torrens JV project location



SOURCE: COMPANY DATA

We highlight the recent (27th November 2018) announcement by BHP of drilling results from its own Stuart Shelf IOCG exploration program on a prospect located 65km SE of Olympic Dam and in very close proximity to AIS' Torrens JV. BHP completed 5,346m of diamond drilling over four holes (average hole length 1,337m) and has considered the results sufficiently material to announce to the market. All four holes intersected significant copper, gold, uranium and silver mineralisation with the best hole returning:

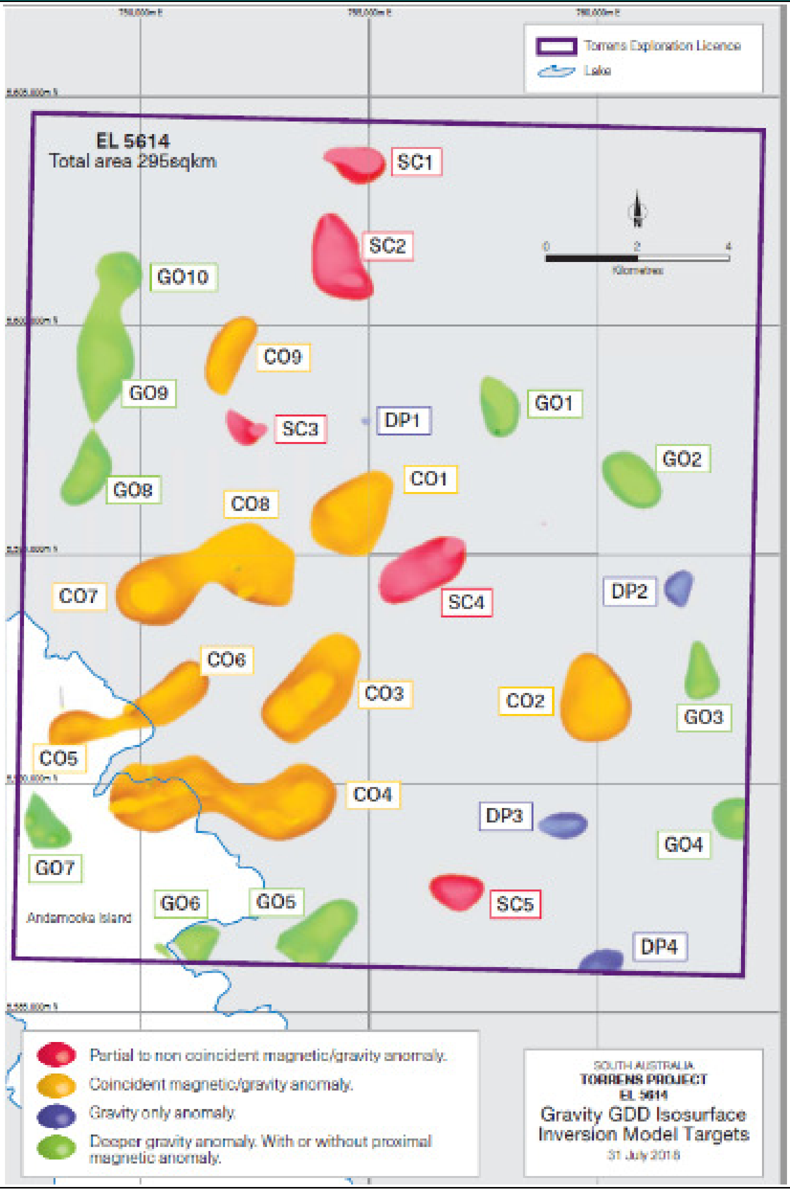
- 425.7m @ 3.04% Cu, 0.59g/t Au, 346ppm U and 6.03g/t Ag from 1,063m (hole AD-23).

BHP plans a follow-up drill program in 2019.

While very few conclusions can be drawn from these results in relation to the Torrens JV, it does demonstrate the prospectivity of the geological setting and is extremely encouraging for AIS.

We also note the current ~A$40m market capitalisation (November 28th) of AIS' partner in the Torrens JV, Argonaut Resources (ARE). While ARE also has copper exploration interests in Zambia, its prime asset is its 30% interest in the Torrens JV. We note the significant ARE share price movement following BHP's announcement of its drilling results which also infers the bulk of ARE's valuation is attributable to the prospectivity of the Torrens JV. We would suggest that this implies a market valuation for the Torrens JV (100%-basis) of ~A$100-A$120m and hence a valuation for AIS' 70% share of A$70-A$80m.

Figure 10 - Torrens JV target zones as identified by geophysical anomalies



SOURCE: ARGONAUT RESOURCES NL

Capital structure and financials

The current AIS management team has been in place since 2013 and one of the key focuses since that time has been the restructuring of the balance sheet and AIS' capital structure. During this time two major financial restructures have been completed: one in December 2015 and one in February 2018. Total debt has been reduced from US$136m in June 2013 to US$29m as at October 2018.

Equity outstanding

Most recently, in September 2018, AIS completed a fully underwritten A$35.1m equity raising at A$0.20/sh, issuing 175.5m shares in two tranches:

i) Share Placement of 42.0m shares priced at $0.20/sh, raising $8.4m; and

ii) An underwritten Entitlement Offer to shareholders of 1 new share for every 2.1 shares held, priced at $0.20/sh, issuing 133.4m shares and raising $26.7m.

The placement was sub-underwritten by SPOV (a subsidiary of a fund managed by PAG), AIS' major shareholder and key debt financier, who also committed to apply for $7m of new shares (35.0m) under the Institutional Entitlement Offer. On completion, SPOV acquired 58.5m new shares for $11.7m, lifting its shareholding from 140.1m shares (50.0% of issued capital) to now holding 198.6m shares (43.6% of issued capital).

The largest single use of the proceeds from this placement was the repayment of US$20m (A$26.1m) of debt, which was completed on October 4 2018. The payment was made against AIS' Tranche B debt facility with SPOV, in effect a partial debt for equity swap. The repayment reduced the balance from US$30.0m to US$10.0m. AIS now has 455.7m shares outstanding.

Unquoted securities

In addition to this there are a further 93.4m unlisted Employee Options at a nil exercise price issued to key members of the Executive Management Team. These are in the process of vesting over a five year period (from December 2015) with 44.4m vested as at June 30 2018.

AIS also has 93.4m Convertible Redeemable Preference Shares (CRPS) outstanding and held by Standard Chartered Bank (SCB). These are fully paid Convertible Redeemable Preference Shares in the ordinary capital of AIS that were originally issued to SCB in consideration for the restructure of debt facilities provided by them. Unless converted or redeemed prior, they will mandatorily convert to ordinary shares in December 2020. The redemption and cancellation of these CRPS is one of the remaining capital restructuring opportunities that would be materially value accretive to shareholders.

Table 4 – AIS current capital structure summary

Shares on issue	m		455.7
Total shares on issue	**m**		**455.7**
Share price	**$/sh**		**0.180**
Market capitalisation	$m		82.0
Net cash (debt)	$m		-15.0
Enterprise value (undiluted)	**$m**		**97.0**
Options outstanding (m)	m	(wtd avg ex. price $0.00 per share)	186.8
Options (in the money)	m		186.8
Issued shares (diluted for options)	m		642.5
Market capitalisation (diluted)	$m		115.7
Net cash (debt) + cash from options	$m		-15.0
Enterprise value (diluted)	**$m**		**130.7**

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

AIS' last reported cash position was A$16m as at 30 September 2018. Allowing for the settlement of the proceeds from the equity raising of A$35.1m and net of the A$26.1m (US$20m) debt repayment, we estimate a cash position of A$25m. Against the US$29m (A$40m) outstanding debt we estimate a net debt position of A$15m.

Debt and hedging

AIS undertook a major debt restructuring in February 2018 in which AIS' Senior Debt Facility with Standard Chartered Bank (SCB) was sold to Special Portfolio Opportunity V Limited (SPOV), a subsidiary of a fund managed by PAG.

PAG

PAG is a Hong Kong based alternative investment manager with over US$20 billion under management and was formerly known as Pacific Asia Group. The group is led by Chairman and CEO, Weijian Shan, who was a previously a senior partner at TPG, a former Managing Director of JP Morgan (its Chief China Representative) and a former Assistant Professor at the Wharton School of the University of Pennsylvania. PAG initially became involved with AIS in March 2015 (when AIS was known as Straits Resources, SRQ:AU) when its subsidiary, SPOV, provided a US$25.0m revolving loan facility (SPOV Tranche A) for a 3 year term to fund working capital and growth initiatives at the Tritton copper mine. PAG's funds include asset backed lending and distressed debt strategies. They remain the provider of AIS' SPOV Tranche A working capital facility, which was last reported to be drawn to US$19.0m (as at 4 October 2018).

February 2018 debt restructure

The key features of the February 2018 debt restructure included:

i) The reduction in size and sale of its Senior Debt facility with SCB. The size of the facility was reduced from US$63.3m (including capitalised interest) to US$30.0m. The debt was sold by SCB to SPOV. This new SPOV debt facility (SPOV Tranche B) includes a US$5.0m arrangement fee payable to SPOV, which may be paid in shares at AIS' election;

ii) The reduction of AIS' share capital by 50%, with 467.0m (80%) of the Convertible Redeemable Preference Shares (CRPS) held by SCB redeemed for $1 and subsequently cancelled; and

iii) The cancellation of the Copper Price Participation Agreement with SCB for $1, allowing AIS to retain the full benefit of copper prices above $8,000/t.

In conjunction with SPOV's purchase and restructure of the Senior Debt from SCB, the maturity of the existing SPOV Tranche A revolving loan working capital facility was extended to 14 March 2020, coinciding with the maturity of the new SPOV Tranche B facility.

Following the completion of the debt restructure, AIS had US$30.0m debt outstanding (including the arrangement fee) with the SPOV Tranche B facility and US$17.9m debt outstanding with the SPOV Tranche A facility.

September 2018 equity raise and debt reduction

One of the features of the SPOV Tranche B facility was an interest rate penalty of 3.0% to be applied to any balance above US$10.0m from 14 September 2018. This was one of the key catalysts for the September 2018 equity raise.

As previously discussed, the largest single use of the proceeds from this A$35.1m placement was the repayment of US$20m (A$26.1m) of debt, which was completed on October 4 2018. The payment was made against AIS' SPOV Tranche B debt facility, reducing the balance from US$30.0m to US$10.0m.

Current debt outstanding

AIS' total debt currently stands at US$29.0m, representing a debt reduction of more than US$100m since the start of 2013. The bulk of this has been achieved through the restructures of February 2018 and December 2015.

Table 5 – AIS current debt summary (October 2018)

Facility	Balance (US$m)	Comment
SPOV Tranche A	$19.0	Cash interest at 5% p.a. and PIK at 6% compounding every 3 months, matures March 2020
SPOV Tranche B	$10.0	Cash interest at 12.5% p.a., matures March 2020
Total	**$29.0**	

SOURCE: BELL POTTER ESTIMATES

Hedging

In conjunction with the February 2018 debt restructure, AIS entered into a copper hedging program comprising a copper swap contract covering 12,000t of copper. The copper was scheduled to be delivered at the rate of 1,000t per month from March 2018 to February 2019 at an average price of A$8,670/t.

As at end November 2018 we assume that 3,000t remains to be delivered. With the spot price at ~A$8,500/t, marginally below the average swap contract price, we estimate the hedge book to be in-the-money to the tune of ~A$0.4m.

Financials

Debt repayment and service

The key feature of AIS' financial outlook is the remaining US$29m debt, its maturity profile and AIS ability to service it. Both the SPOV Tranche A and SPOV Tranche B facilities mature as bullet repayments on 14 March 2020, effectively five full quarterly periods from now (November 2018).

During that time, in the absence of a further refinancing and/or equity raise, AIS needs to generate sufficient free cash flows and cash balance to:

- Repay the US$29m principal amount in March 2020 (~A$38m on our current exchange rate assumptions); and
- Repay or capitalise ~A$3.5m in interest expenses.

This totals A$41.5m on our current exchange rate forecasts.

AIS also has finance lease repayment commitments of A$7.3m in FY19 and non-current finance lease repayment commitments of A$8.3m beyond that. This implies that through to March 2020 AIS needs to generate a minimum of A$48.8m (excluding the non-current finance lease commitments of A$8.3m) in order to service and repay its interest bearing liabilities. Net of the current cash balance of A$25m this implies AIS needs to generate free cash flows of A$24m over the next 5 quarters, or ~A$4.8m per quarter.

Operational and free cash flows – recent performance and outlook

AIS has consistently generated positive operational cash flows from the Tritton operations (FY16 $9.1m, FY17 $19.1m, FY18 $50.5m). Mine CAPEX and other investing cash flows have run at around $30m for the last two years for negative free cash flow of $10m in FY17 but $21m positive free cash flow in FY18.

If a performance similar to FY18 is maintained then AIS should be able to meet its debt service and repayment obligations. We note the big improvement in FY18 financial performance vs FY17. On our analysis this was driven by a very strong June 2018 quarter, which benefitted from a high copper price, low operating costs (A$2.10/lb), high grades (1.89% Cu head grade) and a strong mining and milling performance. We estimate that nearly half of AIS' free cash flows in FY18 were generated in the June 2018 quarter.

Our current modelled assumptions are more conservative than this, assuming C1 costs of ~A$2.80-A$2.85/lb and copper in concentrate production of ~6.2kt per quarter. Under our copper price assumptions this generates operating cash flows of ~A$45-A$50m per annum for FY19 and FY20 and combined free cash flows of A$30-35m over the period. With the current cash balance of A$25m this should be sufficient for AIS to meet its debt service and repayment obligations.

Sensitivity analysis - highly leveraged copper exposure

What is clear from our analysis however is that AIS' represents a very sensitive copper exposure. Its cash flows and valuation are highly leveraged to the copper price, AUD:USD exchange rate and cash operating costs.

On our estimates, a ±5% move in the copper price will drive a ±28% swing in our NPV-based valuation for AIS as a whole – implying an even greater swing for our valuation of the Tritton mine itself (±35% in fact).

The sensitivity to commodity prices is followed closely by the influence of our foreign exchange rate assumptions (±24-27%) and then by C1 cash operating costs (±19%).

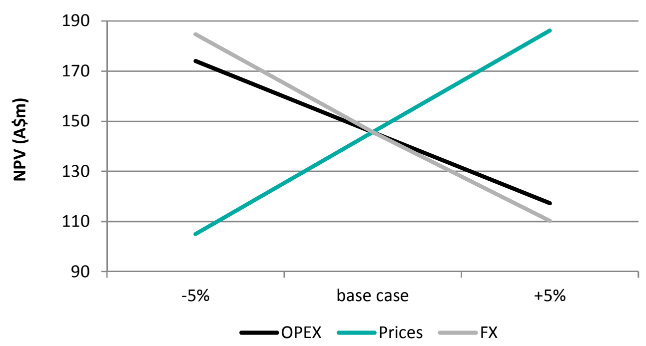
The outputs of a valuation sensitivity analysis are shown in the following table:

Figure 11 - AIS valuation sensitivity analysis

	NPV (A$m)		
	-5%	base case	+5%
Prices	$105.1 -28%	$145.6 0%	$186.2 28%
FX	$184.7 27%	$145.6 0%	$110.3 -24%
OPEX	$174.0 19%	$145.6 0%	$117.3 -19%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Figure 12 – AIS sensitivity chart



SOURCE: BELL POTTER SECURITIES ESTIMATES

AIS' sensitivity to the copper price, FX and OPEX inputs is also clearly material in relation to its ability to generate the cash flows to service and repay its restructured debt obligations. As discussed, on our current assumptions, AIS is forecast to be able to afford them – and there is further flexibility around capital expenditure and exploration budgets (investing cash flows) if required to meet these. Once again, however, the analysis shows a wide range of possible cash flows on relatively minor input sensitivities.

Cash flow sensitivity analysis

Base Case assumptions

The table below shows key cash flow metrics under our current Base Case assumptions (as shown on our back page financial summary). It shows cumulative free cash flows over FY19-FY20 of A$31.5m and a closing cash balance at end FY20 of A$12.0m – following repayment of the SPOV Tranche A and Tranche B facilities, plus AIS' finance lease obligations.

Table 6 - AIS key cash flow metrics – base case

	Actual Jun-16	Actual Jun-17	Actual Jun-18	BPe Jun-19	BPe Jun-20
Operational cash flows (A$m)	9.1	19.1	50.5	46.9	53.4
Investing cash flows (A$m)	-21.3	-29.7	-29.3	-34.0	-34.8
Free cash flow (A$m)	**-12.2**	**-10.6**	**21.2**	**12.9**	**18.6**
Financing cash flow(A$m)	0.0	8.9	-7.5	3.1	-45.9
Cash at end (A$m)	**11.3**	**9.7**	**23.3**	**39.3**	**12.0**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Cash flow sensitivity to commodity price movements

As discussed above, AIS valuation and cash flows are most sensitive to commodity price movements. The table below summarises the same key cash flow metrics under ±5% commodity price movements. With a favourable 5% move in commodity prices cumulative free cash flows over FY19-FY20 lift 55% to A$48.9m and we forecast a closing cash balance at end FY20 of A$29.3m. With a 5% cut to commodity prices the cumulative free cash flows over FY19-FY20 drop 55% to A$14.1m and we forecast a closing cash balance at end FY20 of negative A$5.4m, implying a further funding requirement.

Table 7 – AIS key cash flow metrics and commodity price sensitivity

Price Sensitivity			+5%					-5%		
	Actual Jun-16	Actual Jun-17	Actual Jun-18	BPe Jun-19	BPe Jun-20	Actual Jun-16	Actual Jun-17	Actual Jun-18	BPe Jun-19	BPe Jun-20
Operational cash flows (A$m)	9.1	19.1	50.5	54.5	63.1	9.1	19.1	50.5	39.1	43.8
Investing cash flows (A$m)	-21.3	-29.7	-29.3	-33.9	-34.8	-21.3	-29.7	-29.3	-33.9	-34.8
Free cash flow (A$m)	**-12.2**	**-10.6**	**21.2**	**20.6**	**28.3**	**-12.2**	**-10.6**	**21.2**	**5.1**	**9.0**
Financing cash flow(A$m)	0.0	8.9	-7.5	3.1	-45.9	0.0	8.9	-7.5	3.1	-45.9
Cash at end (A$m)	**11.3**	**9.7**	**23.3**	**47.0**	**29.3**	**11.3**	**9.7**	**23.3**	**31.6**	**-5.4**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Cash flow sensitivity to exchange rate movements

The table below summarises the key cash flow metrics under ±5% exchange rate movements. With a 5% increase in our exchange rate forecasts, our modelled cumulative free cash flows over FY19-FY20 drop 51% to A$15.3m and we forecast a closing cash balance at end FY20 of negative A$1.3m, implying a further funding requirement. With a 5% cut to our exchange rate forecasts, our modelled cumulative free cash flows over FY19-FY20 lift 57% to A$49.3m and we forecast a closing cash balance at end FY20 of A$26.5m.

Table 8 – AIS key cash flow metrics and exchange rate sensitivity

FX Sensitivity			+5%					-5%		
	Actual Jun-16	Actual Jun-17	Actual Jun-18	BPe Jun-19	BPe Jun-20	Actual Jun-16	Actual Jun-17	Actual Jun-18	BPe Jun-19	BPe Jun-20
Operational cash flows (A$m)	9.1	19.1	50.5	39.7	44.3	9.1	19.1	50.5	54.6	63.5
Investing cash flows (A$m)	-21.3	-29.7	-29.3	-33.9	-34.8	-21.3	-29.7	-29.3	-33.9	-34.8
Free cash flow (A$m)	**-12.2**	**-10.6**	**21.2**	**5.8**	**9.5**	**-12.2**	**-10.6**	**21.2**	**20.7**	**28.7**
Financing cash flow(A$m)	0.0	8.9	-7.5	4.2	-44.1	0.0	8.9	-7.5	1.9	-48.0
Cash at end (A$m)	**11.3**	**9.7**	**23.3**	**33.3**	**-1.3**	**11.3**	**9.7**	**23.3**	**45.9**	**26.5**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Cash flow sensitivity to C1 cash cost movements

The table below summarises the key cash flow metrics under ±5% C1 cash cost movements. With a 5% increase in our C1 cash cost forecasts, our modelled cumulative free cash flows over FY19-FY20 drop 32% to A$21.3m and we forecast a closing cash balance at end FY20 of A$1.8m, effectively implying a further funding requirement. With a

5% cut to our C1 cash cost forecasts, our modelled cumulative free cash flows over FY19-FY20 lift 55% to A$41.7m and we forecast a closing cash balance at end FY20 of A$22.1m.

Table 9 - AIS key cash flow metrics and C1 cash cost sensitivity

OPEX Sensitivity			+5%					-5%		
	Actual	Actual	Actual	BPe	BPe	Actual	Actual	Actual	BPe	BPe
	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20
Operational cash flows (A$m)	9.1	19.1	50.5	43.3	46.7	9.1	19.1	50.5	50.3	60.1
Investing cash flows (A$m)	-21.3	-29.7	-29.3	-33.9	-34.8	-21.3	-29.7	-29.3	-33.9	-34.8
Free cash flow (A$m)	**-12.2**	**-10.6**	**21.2**	**9.4**	**11.9**	**-12.2**	**-10.6**	**21.2**	**16.3**	**25.3**
Financing cash flow(A$m)	0.0	8.9	-7.5	3.1	-45.9	0.0	8.9	-7.5	3.1	-45.9
Cash at end (A$m)	**11.3**	**9.7**	**23.3**	**35.8**	**1.8**	**11.3**	**9.7**	**23.3**	**42.7**	**22.1**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Dividends

AIS does not have a formal dividend policy and we do not expect the payment of dividends to be considered until at least the after current debt obligations are met.

Share register and liquidity

We consider the AIS share register to be reasonably tightly held, with top shareholder SPOV holding 43.6% of issued capital and being a stable holder. SPOV committed to subscribing for $7.0m new shares in the Institutional component of the September 2018 Entitlement Offer and sub-underwrote the $6.7m Retail component of the Entitlement Offer, eventually acquiring 58.5m new shares for $11.7m, lifting its shareholding from 140.1m shares (50.0% of issued capital) to 198.6m shares (43.6% of issued capital).

Beyond SPOV, institutional presence on the register is light. DGJ Keet Investments lifted its holding with the September placement to again become a Substantial Holder. We note Glencore’s shareholding has remained unchanged at 13.2m shares (as at 3 October 2018, as per the AIS Annual Report), though now being diluted down from 9.3% (September 2017) to 2.9% of issued capital.

Table 10 – AIS top shareholders

Shareholder	%	m
SPOV	43.6%	198.6
DGJ Keet Investments	5.9%	26.9
Bain Capital Credit	4.7%	21.5
Glencore Finance	2.9%	13.2

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Liquidity in AIS shares remains shallow, with average daily value traded below $100,000 per day on both a monthly and 6-monthly basis, notwithstanding an increase since the September share placement. Less than 15% of the issued capital of the company has traded over the last 6 months which, even when allowing for the 50-60% free float over that period, is below average for the market and our sector coverage (both in the range of 40-45%).

Board and management

Board of Directors and senior management

AIS is managed by a Board of four members, including Andre Labuschagne who is the Executive Chairman. The three other Directors hold Non-Executive positions and two of whom are classed as independent. The two Independent Directors are Alastair Morrison (a banker formerly with SCB) and Michele Muscillo (a lawyer and partner with HopgoodGanim Lawyers). The fourth Board member is Marcus Derwin (with a background in investment management and corporate advisory) who is not considered to be independent. In our view the size of the Board and the skill-sets represented are appropriate to the size and activities of AIS over the last several years. Remuneration of the Board and senior executives totalled $2.933m in FY18, inclusive of superannuation, short-term incentives and share based payments. Cash salary remuneration comprised $1.813m of this amount.

Board of directors

Andre Labuschagne – Executive Chairman (appointed December 2012)

Mr Labuschagne is an experienced mining executive with a career spanning over 25 years across operations in Australia, Indonesia, South Africa, PNG and Fiji. Mr Labuschagne has held various corporate and operational roles in companies including Norton Gold Fields, Emperor Gold Mines, DRD Gold and AngloGold Ashanti. Mr Labuschagne holds a Bachelor of Commerce from Potchefstroom University in South Africa. Other current directorships of ASX listed entities are Magontec Limited (MGL). He has held no former directorships in the past 3 years for other ASX listed entities.

Alastair Morrison – Non-Executive Director (appointed December 2010)

Mr Morrison is a highly experienced international banker. Mr Morrison has worked in private equity for over 30 years in the UK and Asia and has broad experience in growing companies across a range of industrial sectors. He was a founding Managing Director of Standard Chartered Private Equity. He was with Standard Chartered Bank from April 2002 until March 2014. Prior to joining Standard Chartered Bank he spent 20 years at 3i Group, the leading European private equity house, where he was Director for 3i Asia Pacific. He co-founded 3i's Asia Pacific operations in 1997, having previously run an investment team in London focusing on buy-outs and expansion financing. Mr Morrison has investment experience across a wide range of industries in Europe and Asia. He holds an M.A. degree in Politics, Philosophy and Economics and M.Phil degree in Management Studies from Oxford University.

Michele Muscillo – Non-Executive Director (appointed May 2013)

Mr Muscillo is a Partner specialising in corporate law with HopgoodGanim Lawyers. Mr Muscillo is an admitted Solicitor and has a practice focussed almost exclusively on mergers & acquisitions and capital raising. Mr Muscillo has acted on a variety of corporate transactions including initial public offerings, takeovers and acquisitions. Mr Muscillo has a Bachelor of Laws from Queensland University of Technology and was a recipient of the QUT University Medal. Other current directorships of ASX listed entities are Cardinal Resources Ltd (CDV), Xanadu Mines Ltd (XAM) and Mako Gold Ltd (MKG). Former directorships of ASX listed entities in the past 3 years are Orbis Gold Ltd (OBS).

Source: AIS Annual Report 2018, company website www.aerisresources.com.au/about-aeris/company-profile.html

Board of directors (continued)

Marcus Derwin – Non-Executive Director (appointed April 2016)

Mr Derwin is a highly experienced corporate executive and Board director, with an extensive background in corporate restructuring. He brings international experience, across a diverse range of industry sectors. His professional career has encompassed a combination of advisory and principal executive capacities, including managing a $A2Bn global Alternative Assets portfolio over 5 years and also the formation and management of a $A550m LIC. Additionally, he has advised boards – both public and private and worked within and alongside executive teams on implementation, stakeholder management and recapitalisation strategies. Mr Derwin's professional background includes senior roles at AMP, National Australia Bank, Allco Equity Partners, PwC and KPMG.

Source: AIS Annual Report 2018, company website www.aerisresources.com.au/about-aeris/company-profile.html

Senior management

Robert Brainsbury – Chief Financial Officer and Co-Company Secretary (appointed December 2012)

Robert Brainsbury has more than 25 years' experience in the mining and mining services sectors. He has held senior roles with companies including Rio Tinto, Xstrata, MIM Holdings and BIS Industrial Logistics. Prior to joining Aeris Resources, Robert was the Chief Financial Officer and Company Secretary at Norton Gold Fields Limited. Mr Brainsbury is a qualified accountant and holds a Bachelor of Business degree with majors in Accounting and Marketing.

Ian Sheppard – Chief Operating Officer (appointed March 2013)

Ian Sheppard is a member of the Australian Institute of Mining and Metallurgy and has more than 30 years' experience in mine operations, technical studies and business development gained in gold, base metals and iron ore. He has worked in Australia, Canada and Papua New Guinea, most recently holding General Manager roles with Norton Gold Fields Limited and PanAust Limited. Prior to this he spent more than seven years with Ok Tedi Mining in Papua New Guinea as General Manager and Executive Manager with responsibility for operations, technical services, business development and exploration. Mr Sheppard holds a degree in Mining Engineering from the University of New South Wales, a Masters in Mineral Economics from Curtin University of Technology, as well as a First Class Mine Managers Certificate from Western Australia.

John Miller – Tritton General Manager (appointed December 2012)

John Miller is a mining engineer with over 30 years' of experience in both underground and surface mining operations. He has worked in Australia, Asia, Africa and the United States in both large and smaller operations and brings a depth of operational and management experience to the Tritton operations. Mr Miller holds a Bachelor of Engineering (Mining).

Source: AIS Annual Report 2018, company website www.aerisresources.com.au/about-aeris/company-profile.html

Aeris Resources Ltd (AIS)

Company description

AIS is an ASX-listed copper production and exploration company whose primary asset is its 100% owned Tritton Copper Operations, located approximately 60km by road north-west of the town of Nyngan in the central west of NSW. Copper concentrate production commenced at Tritton in 2005 and has since averaged ~24ktpa. Supplementary production has also come from the recovery of residual copper from historic heap leach pads via a copper cementation plant.

Currently, two active underground mines (Tritton and Murrawombie) produce a combined ~1.6Mtpa of ore for processing through the Tritton concentrator for production of ~25ktpa copper in concentrate. AIS currently has a 5 year life-of-mine plan to FY23, targeting the production of 24ktpa copper. From FY20, production will be supplemented by new operations at the planned Avoca Tank underground, Budgery open-pit and underground and Murrawombie open-pit mines. Opportunities to extend the Resource base and mine life of these deposits is the focus of an ongoing exploration program.

Beyond the Tritton operations the key exploration focus is the Torrens JV in South Australia, in which AIS has a 70% interest. The Torrens project is targeting large scale Iron-Oxide-Copper-Gold (IOCG) deposits in the highly prospective Stuart Shelf. Stage 1 of the first major drilling program there in ten years is set to commence in 2019.

AIS holds a strategic objective to become a multi-mine, mid-tier copper producer through both organic growth and M&A.

Investment Thesis – Buy, Target Price $0.23/sh

AIS represents a highly leveraged copper exposure through both its Tritton operations and the potential for exploration success at the Torrens JV. With the balance sheet strengthened and capital restructured, we now see an attractive entry point into a company well placed to become the next mid-tier copper producer on the ASX. We initiate with a Buy recommendation and NPV-based target price of $0.23/sh.

Valuation methodology

Our valuation for AIS is based upon the 12-month forward NPV of our forecast free cash flows from the Tritton Copper Operations, based on the current 5 year mine plan and net of corporate administration costs. This is included in a sum-of-the-parts valuation for the company which also includes a notional estimate for the value of the exploration potential of the balance of the Tritton tenements and the Torrens JV in South Australia. We currently assume no mine life extension in our Tritton NPV, so our exploration valuation also aims to capture some of that potential.

Table 11 – AIS sum-of-the-parts valuation

Sum-of-the-parts (+12 month Target Price)	$m	$/sh
Project (un-risked NPV10)	103.9	0.23
Other exploration	50.0	0.11
Subtotal	**153.9**	**0.34**
Net cash (debt)	(8.2)	(0.02)
Total (undiluted)	**145.6**	**0.32**
Dilutive effect of options		(0.09)
Add cash	-	-
Total (diluted)	**145.6**	**0.23**

SOURCE: BELL POTTER ESTIMATES

With upside of 17.9% from the current share price to our valuation, we make a Buy recommendation in conformity with our rating structure.

Resource sector risks

Risks to AIS 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.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to 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 resource companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **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.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Corporate/M&A risks.** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Aeris Resources Ltd
as at 30 November 2018

Recommendation	Buy
Price	$0.195
Target (12 months)	$0.23

Table 12 - Financial summary

PROFIT AND LOSS

Year ending December	Unit	2017a	2018a	2019e	2020e	2021e
Revenue	$m	168.1	236.0	222.9	231.0	228.9
Expense	$m	(153.5)	(131.0)	(169.5)	(170.7)	(174.9)
EBITDA	**$m**	**14.6**	**105.0**	**53.3**	**60.3**	**54.0**
Depreciation	$m	(24.9)	(24.8)	(25.6)	(25.2)	(25.2)
EBIT	$m	(10.3)	80.2	27.7	35.1	28.7
Net finance costs	$m	(16.7)	(18.7)	(7.3)	(2.4)	0.3
Unrealised gains (Impairments)	$m	-	-	-	-	-
Other	$m	-	-	-	-	-
PBT	**$m**	**(27.0)**	**61.5**	**20.4**	**32.7**	**29.0**
Tax expense	$m	6.3	6.2	4.4	9.2	8.1
NPAT (reported)	**$m**	**(33.3)**	**55.3**	**16.0**	**23.5**	**20.9**
NPAT (underlying)	$m	(33.3)	55.3	16.0	23.5	20.9

CASH FLOW

Year ending December	Unit	2017a	2018a	2019e	2020e	2021e
OPERATING CASHFLOW						
Receipts	$m	171.6	231.7	223.6	230.7	229.0
Payments	$m	(150.8)	(179.1)	(165.0)	(170.5)	(174.2)
Tax	$m	-	-	(6.2)	(4.4)	(9.2)
Net interest	$m	(1.7)	(2.1)	(5.6)	(2.4)	0.3
Other	$m	-	-	-	-	-
Operating cash flow	$m	**19.1**	**50.5**	**46.9**	**53.4**	**46.0**
INVESTING CASHFLOW						
Property, plant and equipment	$m	(31.4)	(23.9)	(16.6)	(16.0)	(5.9)
Mine development	$m	-	-	(12.4)	(14.0)	(5.9)
Exploration & evaluation	$m	(1.7)	(3.4)	(4.9)	(4.8)	(4.8)
Other	$m	3.5	(2.1)	-	-	-
Investing cash flow	$m	**(29.7)**	**(29.3)**	**(34.0)**	**(34.8)**	**(16.6)**
Free Cash Flow	$m	(10.6)	21.2	12.9	18.6	29.4
FINANCING CASHFLOW						
Share issues/(buy-backs)	$m	-	-	35.1	-	-
Debt proceeds	$m	14.5	5.1	4.8	-	-
Debt repayments	$m	(0.1)	(5.1)	(27.8)	(38.7)	-
Dividends	$m	-	-	-	-	-
Other	$m	(5.6)	(7.5)	(9.0)	(7.3)	(1.1)
Financing cash flow	$m	**8.9**	**(7.5)**	**3.1**	**(45.9)**	**(1.1)**
Change in cash	$m	(1.7)	13.6	16.0	(27.4)	28.3

BALANCE SHEET

Year ending December	Unit	2017a	2018a	2019e	2020e	2021e
ASSETS						
Cash & short term investments	$m	9.7	23.3	39.3	12.0	40.2
Accounts receivable	$m	11.6	16.9	16.1	16.4	16.3
Property, plant & equipment	$m	52.9	50.7	51.6	54.3	48.8
Mine development expenditure	$m	45.1	51.1	60.7	69.8	68.7
Exploration & evaluation	$m	14.5	17.9	15.7	13.6	11.4
Other	$m	30.2	24.6	20.0	20.0	20.0
Total assets	$m	**164.0**	**184.5**	**203.5**	**186.0**	**205.6**
LIABILITIES						
Accounts payable	$m	24.7	26.0	30.5	30.7	31.5
Income tax payable	$m	-	1.9	4.4	9.2	8.1
Borrowings	$m	119.2	82.6	47.5	1.1	-
Other	$m	19.6	19.0	14.9	15.5	15.5
Total liabilities	$m	**163.5**	**129.5**	**97.4**	**56.4**	**55.1**
SHAREHOLDER'S EQUITY						
Contributed equity	$m	360.8	388.2	423.3	423.3	423.3
Preference equity	$m	31.6	4.2	4.2	4.2	4.2
Reserves	$m	(7.8)	(8.6)	(8.6)	(8.6)	(8.6)
Retained earnings	$m	(384.1)	(328.8)	(312.8)	(289.2)	(268.3)
Total equity	$m	**0.5**	**55.0**	**106.1**	**129.6**	**150.5**
Weighted average shares	m	140.1	178.8	368.0	455.7	455.7

CAPITAL STRUCTURE

Shares on issue	m		455.7
Total shares on issue	**m**		**455.7**
Share price	**$/sh**		**0.195**
Market capitalisation	$m		88.9
Net cash (debt)	$m		-14.6
Enterprise value (undiluted)	**$m**		**103.5**
Options outstanding (m)	m	(wtd avg ex. price $0.00 per share)	186.8
Options (in the money)	m		186.8
Issued shares (diluted for options)	m		642.5
Market capitalisation (diluted)	$m		125.3
Net cash (debt) + cash from options	$m		-14.6
Enterprise value (diluted)	**$m**		**139.9**

MAJOR SHAREHOLDERS

Shareholder	%	m
SPOV	43.6%	198.6
DGJ Keet Investments	5.9%	26.9
Bain Capital Credit	4.7%	21.5
Glencore Finance	2.9%	13.2

FINANCIAL RATIOS

Year ending December	Unit	2017a	2018a	2019e	2020e	2021e
VALUATION						
NPAT	$m	(33.3)	55.3	16.0	23.5	20.9
Reported EPS	c/sh	(23.8)	30.9	4.3	5.2	4.6
Adjusted EPS	c/sh	(23.8)	30.9	4.3	5.2	4.6
EPS growth	%	nm	nm	-86%	19%	-11%
PER	x	nm	0.6x	4.5x	3.8x	4.3x
DPS	c/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	c/sh	(7.6)	11.8	3.5	4.1	6.4
P/FCFPS	x	-2.6x	1.6x	5.6x	4.8x	3.0x
EV/EBITDA	x	7.1x	1.0x	1.9x	1.7x	1.9x
EBITDA margin	%	9%	44%	24%	26%	24%
EBIT margin	%	nm	34%	12%	15%	13%
Return on assets	%	-20%	32%	8%	12%	11%
Return on equity	%	-198%	199%	20%	20%	15%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	109.5	59.3	8.2	(10.9)	(40.2)
ND / E	%	22480%	108%	8%	-8%	-27%
ND / (ND + E)	%	100%	52%	7%	-9%	-36%
EBITDA / Interest	x	0.9x	5.6x	7.3x	25.6x	nm

ORE RESERVE AND MINERAL RESOURCE

Tritton Copper Operations	Mt	% Cu	kt Cu
Mineral Resources			
Measured	3.8	1.7%	65
Indicated	10.3	1.6%	159
Inferred	6.6	1.3%	88
Total	**20.7**	**1.5%**	**312**
Ore Reserve			
Proven	3.400	1.5%	51
Probable	4.900	1.5%	74
Total	**8.300**	**1.5%**	**125**

ASSUMPTIONS - Prices

Year ending December (avg)	Unit	2017a	2018a	2019e	2020e	2021e
Copper	US$/lb	$2.44	$3.06	$3.04	$3.25	$3.33
Gold	US$/oz	$1,259	$1,300	$1,284	$1,400	$1,420
Copper	A$/lb	$3.24	$3.95	$4.16	$4.33	$4.43
Gold	A$/oz	$1,669	$1,678	$1,758	$1,867	$1,893
Currency						
AUD:USD	A$/US$	0.75	0.78	0.73	0.75	0.75

ASSUMPTIONS - Production & costs

Year ending December	Unit	2017a	2018a	2019e	2020e	2021e
Copper production						
Ore tonnes processed	kt	1,467	1,592	1,665	1,640	1,640
Head grade	% Cu	1.67%	1.75%	1.61%	1.60%	1.55%
Copper produced	kt	23.299	26.558	25.449	24.928	24.149
Costs						
Cash costs	A$/lb	$2.60	$2.60	$2.82	$2.90	$3.08
All-in-Sustaining-Costs (AISC)	A$/lb	$3.50	$3.32	$3.54	$3.65	$3.51

VALUATION

Ordinary shares (m)	**455.7**
Options in the money (m)	186.8
Total shares diluted (m)	**642.5**

	Now		+12 mths		+24 mths	
Sum-of-the-parts	**$m**	**$/sh**	**$m**	**$/sh**	**$m**	**$/sh**
Project (unrisked NPV10)	101.2	0.22	103.9	0.23	100.7	0.22
Other exploration	50.0	0.11	50.0	0.11	50.0	0.11
Subtotal	151.2	0.33	153.9	0.34	150.7	0.33
Net cash (debt)	(8.2)	(0.02)	(8.2)	(0.02)	10.9	0.02
Total (undiluted)	**142.9**	**0.31**	**145.6**	**0.32**	**161.6**	**0.35**
Dilutive effect of options		(0.09)		(0.09)		(0.10)
Add cash from options	-	-	-	-	-	-
Total (diluted)	**142.9**	**0.22**	**145.6**	**0.23**	**161.6**	**0.25**

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.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
Industrials			
Sam Haddad	Industrials	612 8224 2819	shaddad
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Tim Piper	Industrials	612 8224 2825	tpiper
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
Financials			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified Financials/Fintech	613 9235 1668	lsotiriou
Resources			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Analysts			
James Filius	Analyst	613 9235 1612	jfilius
Alexander McLean	Analyst	612 8224 2886	amclean
Damien Williamson	Analyst	613 9235 1958	dwilliamson

Bell Potter Securities Limited
ACN 25 006 390 7721
Level 38, Aurora Place
88 Phillip Street, Sydney 2000
Telephone +61 2 9255 7200
www.bellpotter.com.au

The following may affect your legal rights. Important Disclaimer:

This document is a private communication to clients and is not intended for public circulation or for the use of any third party, without the prior approval of Bell Potter Securities Limited. In the USA and the UK this research is only for institutional investors. It is not for release, publication or distribution in whole or in part to any persons in the two specified countries. In Hong Kong this research is being distributed by Bell Potter Securities (HK) Limited which is licensed and regulated by the Securities and Futures Commission, Hong Kong. This is general investment advice only and does not constitute personal advice to any person. Because this document has been prepared without consideration of any specific client's financial situation, particular needs and investment objectives ('relevant personal circumstances'), a Bell Potter Securities Limited investment adviser (or the financial services licensee, or the representative of such licensee, who has provided you with this report by arrangement with Bell Potter Securities Limited) should be made aware of your relevant personal circumstances and consulted before any investment decision is made on the basis of this document.

While this document is based on information from sources which are considered reliable, Bell Potter Securities Limited has not verified independently the information contained in the document and Bell Potter Securities Limited and its directors, employees and consultants do not represent, warrant or guarantee, expressly or impliedly, that the information contained in this document is complete or accurate. Nor does Bell Potter Securities Limited accept any responsibility for updating any advice, views opinions, or recommendations contained in this document or for correcting any error or omission which may become apparent after the document has been issued.

Except insofar as liability under any statute cannot be excluded. Bell Potter Securities Limited and its directors, employees and consultants do not accept any liability (whether arising in contract, in tort or negligence or otherwise) for any error or omission in this document or for any resulting loss or damage (whether direct, indirect, consequential or otherwise) suffered by the recipient of this document or any other person.

Disclosure of interest:

Bell Potter Securities Limited, its employees, consultants and its associates within the meaning of Chapter 7 of the Corporations Law may receive commissions, underwriting and management fees from transactions involving securities referred to in this document (which its representatives may directly share) and may from time to time hold interests in the securities referred to in this document.

Disclosure: Bell Potter Securities acted as Joint Lead Manager and Joint Underwriter to the $35.1m Equity Raising of September 2018 and received fees for that service.

ANALYST CERTIFICATION

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.