

Tuesday 28th April, 2015

Aurelia Metals – Commercial production declared at Hera operation – Maintain Spec Buy

Aurelia Metals (ASX: AMI, Share Price: \$0.26, Market Cap: \$101m) is our preferred emerging gold-base metals producer. We introduced the company to our Portfolio during July 2011 and our most recent coverage of the stock was in MLW 194 during December 2014. The company's Hera gold-base metal operation in NSW was formally opened by the NSW Minister for Resources and Energy in late November 2014, and it has since been steadily ramping up towards full production status.

Aurelia has advised that commercial production was declared at its Hera gold-lead-zinc mine in NSW from 1 April 2015, following completion of commissioning of all key components of the processing plant.



Market Significance

Aurelia's share price reflects the extreme volatility experienced by the junior end of the resources sector over the past 12 months. The company rode the crest of the wave between July and August 2014, as interest grew around the imminent commissioning of the company's Hera mine. Unfortunately, momentum was lost as a result of a flight from risk in the junior resources sector during H2 2014. This is now way detracts from the company's overall investment appeal and we believe the patience shown by Aurelia shareholders over the past few years is set to be handsomely rewarded as production grows.

Announcement Detail

Aurelia has advised that commercial production has been declared at its Hera project in NSW, following completion of commissioning of all key components of the processing plant. Commercial production was declared after reviewing a number of key design and financial parameters, including process plant availability, throughput, metal recovery and final product quality.

Nevertheless, despite commercial production being declared, design rates for the process plant are yet to be consistently achieved in all areas. These issues are however being appropriately addressed, with steady improvement in process plant performance achieved over the past few months. This has been achieved via the introduction of additional operations management to the project, especially in the area of plant operating and management expertise.

Key Aspects

- Throughput - The crushing circuit continues to operate above design throughput rates, whilst process plant throughput has been improving steadily as a number of mechanical stability issues and throughput constraints have been addressed, most notably in the tertiary crushing circuit. Mill throughput for the March quarter was 84% of the design rate of 350,000tpa, increasing to 93% of design capacity during the month of March. Further minor capital projects are underway within the tertiary circuit, including a split feed to the twin Tertiary crushers to allow for simultaneous operation.
- Gold Recovery - recoveries to doré improved to >80% by the end of March. The company has been steadily addressing issues within the gravity and leach components of the circuit to improve recoveries to design levels of +90%. Improvement works include: improved gold leach recovery with the installation of a new liquid oxygen sparging facility into the leach circuit; the installation of an additional gravity concentrator ahead of the cleaner flotation circuit; and improved process availability via the installation of a surge tank ahead of the leach circuit, due for completion in July.
- Lead and Zinc Recovery - recoveries of >90% were achieved during the December quarter; however adjustments to the flotation circuit during March were required in order to control silica levels in the final concentrate. These adjustments temporarily reduced base metal recoveries to the mid-80% range, but have since improved to >85% as flotation circuit reagents and settings are optimised.

Technical Significance

Aurelia has now completed the plant commissioning stages of the Hera project, with first production during the September quarter 2014 and first concentrate shipments during the December quarter 2014. There is no doubt that declaration of commercial production is a major milestone for the Hera project and that despite some initial commissioning delays, we have every confidence that the issues experienced during commissioning so far will be resolved and that the project will continue to ramp-up to design levels during the current June quarter. These sorts of issues are common in terms of new project developments.

Elsewhere, underground mine development has so far progressed well ahead of schedule. This has allowed Aurelia to shift priority on the underground mine to full scale stoping from three separate levels, allowing it to capitalise on the additional flexibility provided by the additional development.



Resource Upgrade

Aurelia has also recently advised of a substantial resource upgrade at Hera, based on significant exploration success at the northern and southern limits of the prior Hera Resource from both surface and underground drilling, as well as the inclusion of stope delineation drill results from underground development. Accordingly, the revised estimate incorporates enhanced resource grade and size.

Table 1: Hera Mineral Resource Estimate:

Category	Tonnes	NSR (\$/t)	Au (g/t)	Ag (g/t)	Cu (%)	Pb (%)	Zn (%)
Total Measured	840,000	310	5.58	15.9	0.24	3.12	3.64
Total Indicated	1,270,000	222	3.40	16.0	0.13	2.78	4.28
Total Inferred	1,122,000	237	2.78	66.1	0.11	4.56	5.59
Grand Total	3,233,000	250	3.75	33.4	0.15	3.49	4.57

A significant 25% component of the Resource now lies within the higher-confidence Measured category for the first time, while 65% of the Resource lies within the Measured and Indicated categories combined.

Furthermore, Resource growth to more than 3.2Mt implies a 2-year mine life extension; however additional work will need to be completed, including an updated Reserves estimate, before an extension of mine life can be confirmed. Nevertheless, Aurelia is confident of continuing to grow the resource over time, as exploration continues given the project remains open to both the north and south.

Highlights of the Resource estimate in comparison to previous estimate (2011) include:

- An increase of 790,00 tonnes or 32% over previous estimate
- A 100% increase in silver grade
- A 27% increase in lead grade
- A 19% increase in zinc grade
- A 5% increase in total grade
- Implied mine life extension of circa 2 years
- Inclusion of a Measured component for the first time, with the Measured and Indicated categories, now representing more than 65% of the total Resource.

Project Background

The Hera-Nymagee Project comprises the high-grade underground Hera gold-lead-zinc-silver mine (Aurelia 100%), along with the Nymagee copper deposit (Aurelia 95%), situated 100km southeast of Cobar in central NSW. The deposits are hosted within the Cobar Basin, which also hosts the major mineral deposits at CSA (Cu-Ag), The Peak (Cu-Au) and Endeavor (Cu-Pb-Zn-Ag).

Aurelia is currently evaluating the Nymagee copper deposit, which is situated 4.5km north of Hera, with a view to demonstrating an integrated development of the Hera and Nymagee deposits. Aurelia considers both deposits have the potential to evolve into very large “Cobar-style” mineral systems, with the potential for mineralization to continue to extensive depths and evolve into world-class orebodies.

In our view, ongoing exploration along the Hera-Nymagee corridor will ultimately prove the respective Hera and Nymagee systems to represent one large mineralised system.

Aurelia has adopted a two-stage approach to development of the Hera - Nymagee Project in order to fast-track initial gold revenue and establish mining and process infrastructure with a view to self-funding the development - and eventual integration of the larger Nymagee deposit.

Stage 1 development has seen the establishment of the Hera gold mine and construction of a processing facility at the Hera site, whilst feasibility studies are progressing on Stage 2 to evaluate the integration of the Nymagee deposit, utilising Stage 1 infrastructure. Hera will host a shallow underground mine development and processing plant producing gold and silver doré bars and a bulk lead-zinc concentrate for sale.

The Nymagee deposit is rapidly emerging as one of the most exciting copper discoveries in Australia during recent times. The Nymagee system remains open to the north and at depth, and holds strong analogies to the world-class CSA copper system, located 90km along strike. CSA, like other Cobar Basin mineral systems, possesses extensive depth persistence and in fact extends beyond 2km in depth.

Hera is expected to have an initial underground mining rate of 350ktpa, which could be increased to ~400ktpa, with the processing plant already designed to accommodate a mill throughput of 420ktpa - but with front-end crushing capabilities of 1.2Mtpa. From the Hera DFS, in which a 350ktpa operation was based, Aurelia anticipates C1 operating costs of ~A\$400/oz (after lead-zinc credits). Hera has a current ore reserve of 423,471oz AuEq at average grade of 7g/t AuEq, providing a mining inventory of over 390Koz AuEq over the minimum life of mine of just over 7 years.

For 2016 we estimate EPS of 5c, increasing to 9c during 2017 – putting the stock on a modest P/E ratio of around 5x for 2016 and 3x for 2017.

Summary

All of the hard work of the past few years is beginning to pay off, despite the initial commissioning issues. Given the nature of Cobar-style ore-bodies, there is enormous resource upside that should translate into a long-life operation. Importantly, Aurelia will maintain aggressive exploration activity that will provide both strong news-flow and significant sharemarket sizzle. The company's corporate appeal cannot be underestimated at a time when cashed-up predators are firmly on the look-out for emerging production plays in low-risk jurisdictions.

We therefore maintain our Speculative Buy recommendation on Aurelia Metals around current price levels of \$0.26 for those investors without existing exposure.

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Summit Equities Trading Team

www.summitequities.com.au

Level 38, Australia Square Tower, 264-278 George Street, SYDNEY
Telephone (02) 8243 7510, Fax (02) 8243 7599