BELL POTTER

Speculative
See key risks on Page 14 – Speculative securities may not be suitable for Retail Clients

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Rox Resources Ltd (RXL)

Funded for exploration, acquisition and development

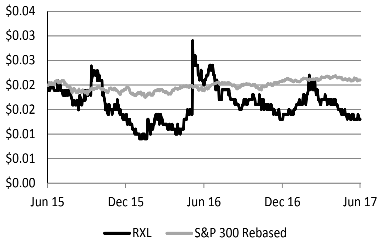
Recommendation
Buy (unchanged)
Price
$0.013
Valuation
$0.035 (previously $0.045)
Risk
Speculative

Expected Return	
Capital growth	169%
Dividend yield	0%
Total expected return	169%
Company Data & Ratios	
Enterprise value	$1m
Market cap	$16m
Issued capital	1,236m
Free float	98%
Avg. daily val. (52wk)	$42,841
12 month price range	$0.012-$0.027
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.014	0.017	0.021
Absolute (%)	-7.1	-23.5	-38.1
Rel market (%)	-5.9	-23.6	-46.1

Absolute Price



SOURCE: IRESS

Cashed up after bulk of proceeds from Reward sale recieved

RXL is estimated to have a current cash balance of around $14m and no debt after having received the bulk of the proceeds from the sale of the company's 49% interest in the Reward Zinc Project in North Queensland to Teck Resources in February 2017. While the Reward Project remains one of the best large scale undeveloped zinc prospects in the world, RXL was faced with the prospect of potentially having to raise significant additional funding to maintain its interest in the JV as it progressed through detailed feasibility studies and then even more potential expenditure as the project moved onto development, so selling out recently as they did made a lot of sense. The company is due to receive a deferred payment of $3.75m at the earlier of a Bankable Feasibility Study being completed on the project or six years from February 2017.

Current drilling at Fisher East, Collurabie next quarter

A program of RC and diamond drilling at RXL's Fisher East Nickel Project is being completed, testing new targets to increase the current Resource of 2mt at 2.5% nickel containing 51kt of nickel in the three main deposits and to enhance economics of their development under a better nickel price, which we see occurring over the next few years. Following finalisation of the acquisition of the Collurabie Project in early June, RXL is now planning to start exploration of the Raglan-like nickel-copper-platinum group metals (PGM) mineralisation in the September 2017 quarter, commencing with an initial aircore drilling program. Apart from two bursts of exploration since its discovery in 2004, Collurabie has only had sporadic and poorly targeted exploration.

Investment thesis – Speculative Buy, valuation $0.035/sh

RXL is now actively advancing its main interests of the advanced Fisher East Nickel Project; its nearby Mt Fisher Gold Project currently being explored under a $10m farm-in by Doray Minerals; and the nearby Collurabie Nickel Project, which also has gold potential. The company has demonstrated its ability to identify and unlock significant value from its projects directly by well-managed, value-adding exploration and by engaging appropriate farm-in partners. Unless RXL identifies a suitable project that requires the support of its shareholders, the company is very well-funded to progress its projects for an extended time. We have lowered our valuation by 22% to $0.035 per share reflecting the Reward sale, increased valuation of Fisher East/Mt Fisher and reduced valuation of the Bonya Project. Speculative Buy recommendation retained.

Quarterly working capital summary

	Mar-16a	Jun-16a	Sep-16a	Dec-16a	Mar-17a	Jun-17e
Exploration and evaluation ($k)	(160)	(245)	(169)	(133)	(115)	(966)
Staff and administration ($k)	(70)	(283)	(195)	(467)	(727)	(286)
Capital raised ($k)	(89)	0	946	0	0	0
Other ($k)	1	2	172	131	14,938	75
Total quarterly cash flow ($k)	(318)	(526)	754	(569)	14,096	(1,177)
Quarter end cash ($k)	**1,122**	**596**	**1,350**	**881**	**14,997**	**13,800**
Debt ($k)	0	0	0	0	0	0
Net Cash ($k)	**1,122**	**596**	**1,350**	**881**	**14,997**	**13,800**
Shares on issue (m)	1,181	1,181	1,236	1,236	1,236	1,236

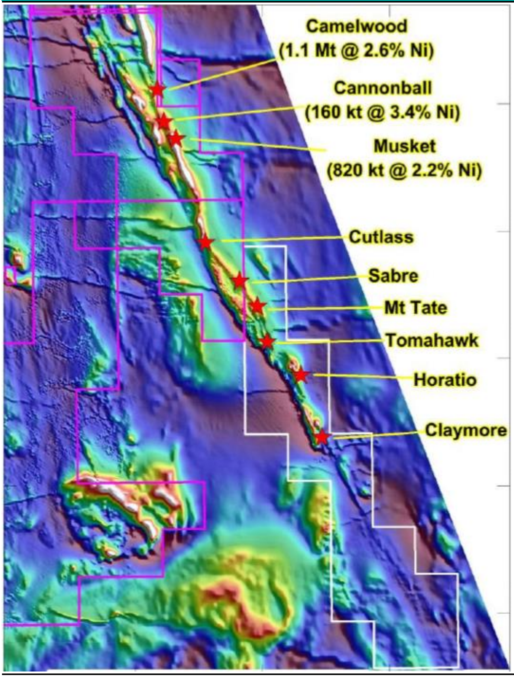
SOURCE: ROX RESOURCES LTD AND BELL POTTER SECURITIES ESTIMATES

Filling in gaps at Mt Fisher

Nickel still the prime focus

RXL is still very focused on its 100% owned Fisher East Nickel Project in the northern part of the Eastern Goldfields region of W.A. The company has identified three zones of potential nickel sulphide mineralisation in previous drilling at Fisher East. RXL has undertaken a Preliminary Feasibility Study (PFS) level investigation on the main zones of high grade nickel sulphide mineralisation at Fisher East, which confirmed that the operating costs of the project would be similar to other WA nickel mines. RXL has defined a Mineral Resource at Fisher East comprising three deposits – Camelwood, Cannonball and Musket (Figure 1 and Figure 2) – with a base case resource at a 1.0% nickel cut-off of 4.2Mt at an average grade of 1.9% nickel containing 78kt of contained nickel metal. Using a 1.5% nickel cut-off, the company has defined a higher grade Mineral Resource for Fisher East of 2.0Mt at average grade of 2.5% nickel for 51kt of contained nickel (Table 1).

Figure 1 – Map showing Fisher East nickel Prospects



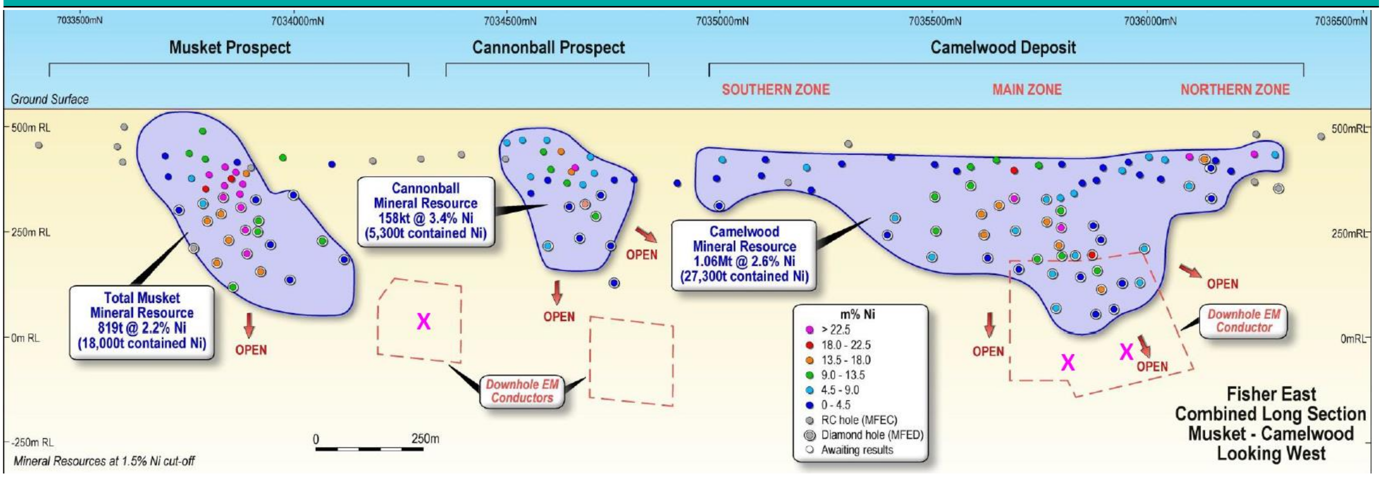
SOURCE: ROX RESOURCES LTD

Table 1 - Mineral Resource for Fisher East at 1.5% nickel cut off

Deposit	Category	Tonnes (Mt)	Ni%	Ni (kt)
Camelwood	Indicated	0.99	2.56	25.3
	Inferred	0.08	2.52	2.0
	Total	**1.06**	**2.56**	**27.3**
Cannonball	Indicated	0.15	3.43	5.1
	Inferred	0.01	2.41	0.2
	Total	**0.16**	**3.38**	**5.3**
Musket	Indicated	0.79	2.21	17.4
	Inferred	0.03	1.94	0.7
	Total	**0.82**	**2.20**	**18.0**
TOTAL	***Indicated***	***1.92***	***2.49***	***47.8***
	Inferred	***0.12***	***2.35***	***2.9***
	Total	**2.04**	**2.48**	**50.6**

SOURCE: ROX RESOURCES LTD

Figure 2 - Long section through the Musket, Cannonball and Camelwood nickel deposits at the Fisher East Project



SOURCE: ROX RESOURCES LTD

Recent Mt Tate nickel sulphide discovery makes 5 zones with Sabre discovery

RXL recently completed an 1,800m RC drilling program at the Fisher East Project. The drilling was part of a combined RC and diamond drilling program designed to increase the nickel resource base at Fisher East. The RC drilling tested the Cutlass, Sabre North, Tomahawk, Mt Tate, Horatio and Claymore Prospects. Massive and disseminated nickel sulphides were intersected for the first time at the Mt Tate Prospect, which following the Sabre discovery, makes Mt Tate the fifth nickel sulphide mineralised zone at Fisher East and confirms that Fisher East is in a highly prospective ultramafic belt for nickel sulphides. The significant results from the Mt Tate drilling included the following intersections:

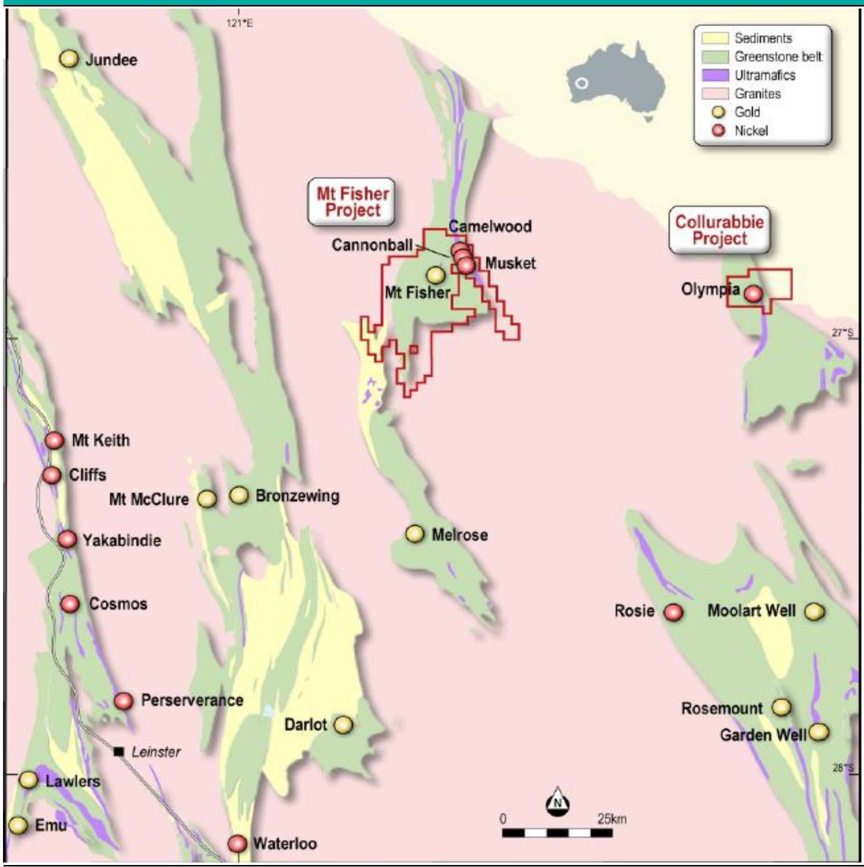
- **2m averaging 1.45% nickel from 94m** down hole in transitional disseminated nickel sulphides in hole MFEC128; and
- **2m averaging 1.42% nickel from 146m** down hole in disseminated sulphides in MFEC 136.

Four other RC holes at Mt Tate intersected lower grade (an average of less than 1% nickel) nickel mineralisation in mostly disseminated but some semi-massive and massive sulphides over intervals of 1m to 4m down hole. The mineralisation at Mt Tate will be further investigated by downhole EM prior to deeper drilling being contemplated.

Encouraging indications of nickel sulphides were also intersected at Cutlass and Sabre North Prospects. At the Cutlass Prospect, two 4m wide zones of low grade disseminated nickel sulphides were intersected while at the Sabre North Prospect, a 5m zone of disseminated sulphides was intersected. Single RC drill holes into the Tomahawk and Claymore Prospects and two RC holes at the Horatio Prospect did not return any significant results.

A subsequent diamond drilling program of 3,350m is being directed at the Sabre, Camelwood and Musket Prospects to test for massive sulphides. Results are awaited.

Figure 3 – Map of Fisher East, Mt Fisher and Collurabie Projects



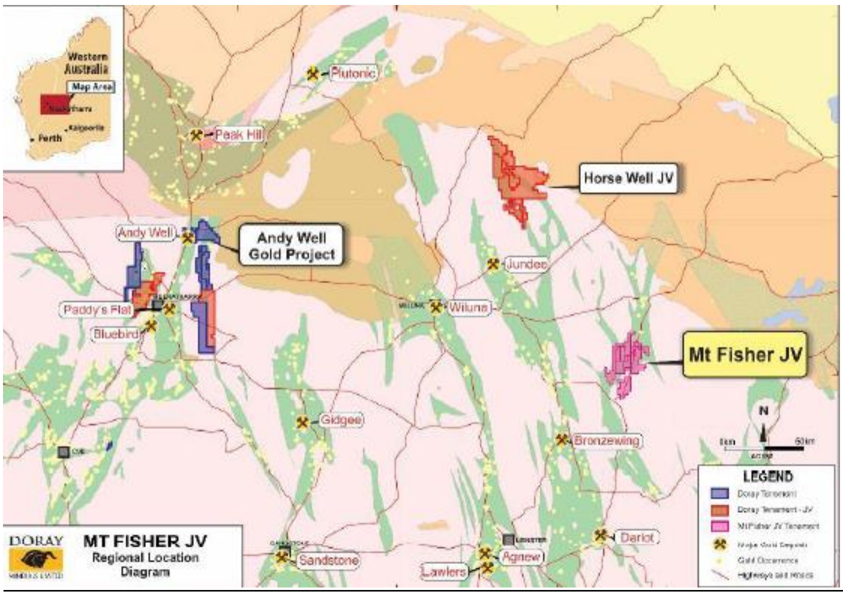
SOURCE: ROX RESOURCES LTD

DRM's aircore program progresses Mt Fisher Gold Project

Under the terms of the farm-in agreement with Doray Minerals (ASX – DRM, Buy), DRM is progressing the exploration at RXL's Mt Fisher gold Project as part of DRM's regional strategy to locate gold mineralisation that has the potential to provide additional near-term incremental development and production opportunities for its Andy Well and other operations in the Murchison of WA (Figure 4). Under the farm-in arrangement, DRM is sole funding up to $10m of exploration to earn up to a 75% interest in the Project over five years, which requires DRM to spend $1m on the tenements by 30 June 2017 (Stage 1) after which DRM may earn a 51% interest in the tenements by expenditure of a further $4m by 30 June 2019 (Stage 2); and then to earn 75%, DRM must spend a further $5m by 30 June 2021 (Stage 3). Upon DRM earning a 75% interest, RXL will be required to contribute 25% of future expenditures or dilute its interest subject to DRM having delivered a PFS because RXL is to be free carried through to the delivery of a PFS. If RXL's interest drops below 5%, it will revert to a 1% net smelter royalty. DRM and RXL are to meet the final payments on the Brewer Option agreement, being $300k each and RXL will meet any residual payments under the Avoca Sale and Purchase Agreement.

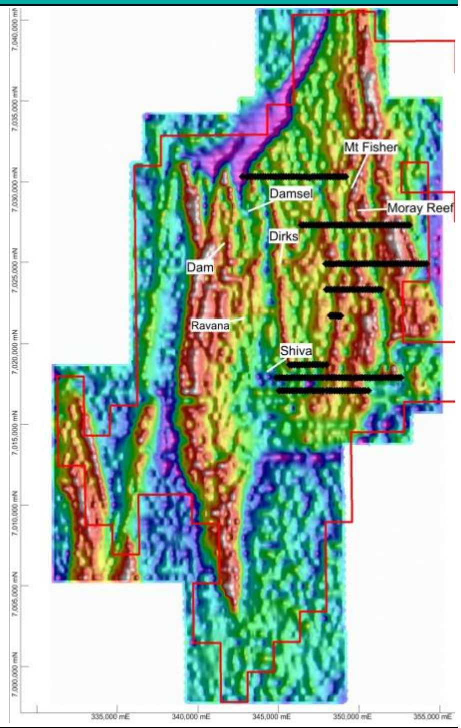
DRM has just completed an aircore drilling program of 12,052m, down from originally planned program of about 16,000m, because of severe interruptions from heavy rainfall. The drilling program tested targets generated from an ongoing review of historical exploration data, field inspections and the results of a ground gravity survey completed by DRM in 2016 (Figure 5). DRM's drilling targeted structural positions looking for indications of large, gold-mineralised systems that could potentially host significant orebodies suitable for a stand-alone gold operation. The large scale (10km long) gold-in-regolith anomaly along the complex western shear zone (that takes in the Damsel, Dam and Shiva Prospects) is indicative of the potential for large gold systems to be present at Mt Fisher.

Figure 4 – Map showing locations of Mt Fisher Project and DRM gold projects



SOURCE: ROX RESOURCES LTD

Figure 5 – Map of aircore traverses at Mt Fisher



SOURCE: ROX RESOURCES LTD

Mt Fisher Project already has small JORC gold Resource

A JORC Resource of 86koz of gold at a cut grade of 2.75g/t (using 0.8g/t gold cut-off) has previously been defined at three deposits in the Mt Fisher Project, which had historic gold production of 27koz from the Mt Fisher mine.

Collurabie is a low cost but quality counter-cyclic project

The discovery of the Collurabie nickel-copper-cobalt-PGM mineralisation in August 2004 was a accompanied by considerable excitement as it seemed to be an important and potentially higher grade example of the Raglan style of nickel deposit that occurs near its namesake city in Canada and which is a world class deposit that has contained over 1Mt of nickel metal which has been mined or defined in 10 deposits. Current owners, Glencore, mine about 1.3Mtpa of high grade nickel-copper-PGM ore from four underground mines at the Raglan complex to produce about 37kt of contained nickel in concentrate plus valuable by-product copper and PGMs. The discovery of Collurabie by WMC Resources (WMC) was closely followed by that company becoming the target of several hostile takeover bids, resulting in the acquisition of WMC by BHP Billiton (BHP) in 2005. After the WMC acquisition, it is understood that exploration activity on the deposit rapidly waned and little was heard of Collurabie, which was subsequently totally acquired by Falcon Minerals in 2010. Falcon Minerals had previously held a 30% interest in the Project with WMC (which held the remaining 70%). Apart from a second but more moderate burst of exploration activity in 2010 to 2011, there has apparently been no significant exploration since 2011.

Collurabie acquired very cheaply while nickel out of favour

We believe the Collurabie acquisition was not only a very cheap one but also very astute. Located 70km east of RXL's Fisher East Nickel Project (Figure 3 on page 3), the Collurabie tenements cover an area of 63km^2 (to which RXL has applied for additional tenements to give it a total project area of about 168km^2) complements and bolsters RXL's nickel activities in the northern part of the Eastern Goldfields region of WA. The acquisition was recently completed after dismissal of a plaint on one of the tenements. The acquisition terms for Collurabie were $25k cash and 7.5m RXL shares and RXL had legal costs in relation to the plaint, which we estimate gives a total acquisition cost of only around $0.3m. It is understood the acquisition came with an extensive technical data base.

Figure 6 – Geological map of main prospects at Collurabie

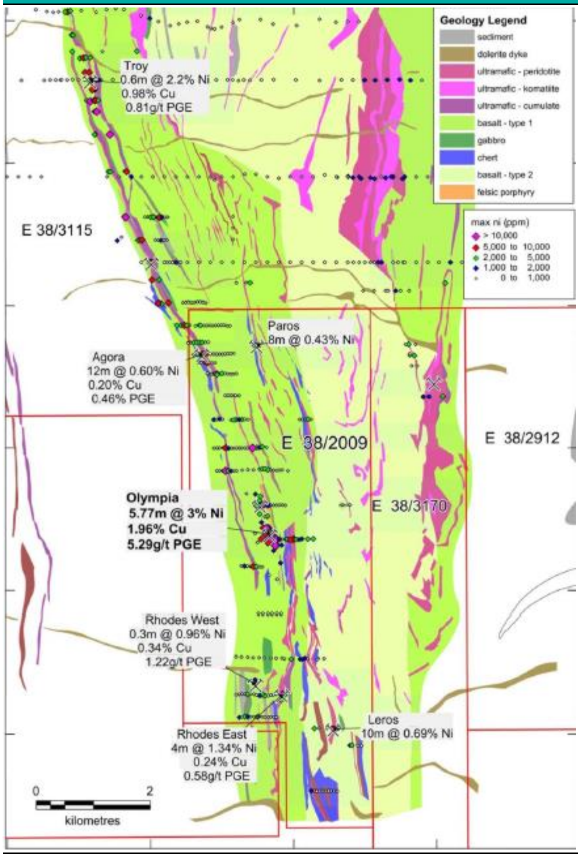
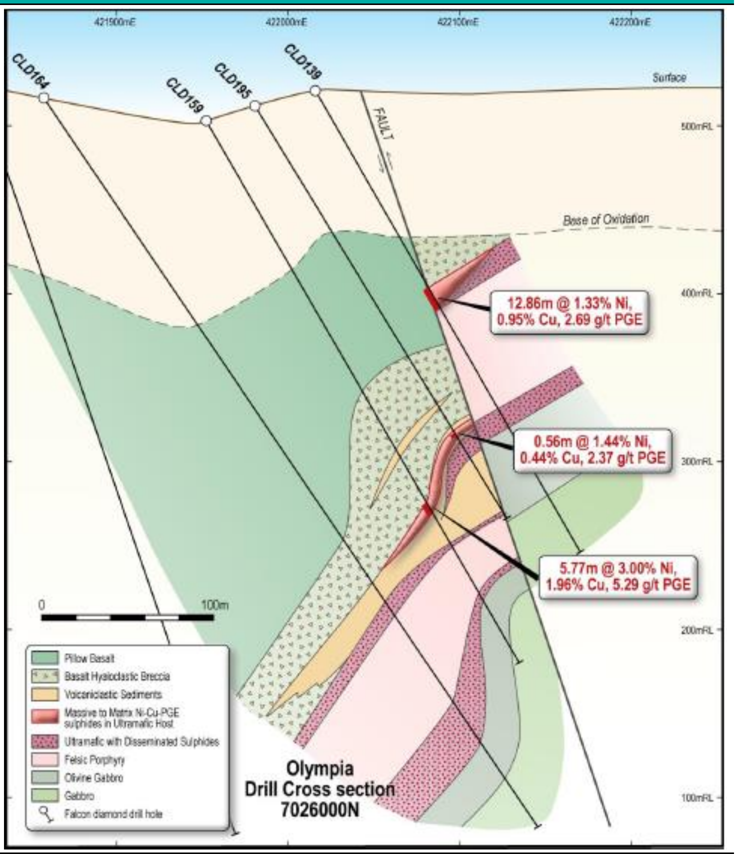


Figure 7 - Cross section showing Olympia mineralisation at Collurabie



SOURCE: ROX RESOURCES LTD

The Olympia Prospect has the main area of nickel-copper-cobalt-PGM mineralisation at Collurabie and it has been subjected to the most drilling, which has included deep RC and diamond drill holes. The mineralisation at Olympia occurs in well-defined zones although the mineralised lenses exhibit pronounced pinching and swelling, ranging from 0.5m to 9.65m wide with consistently high copper contents (over 1%) and high PGM contents (over 2g/t) accompanying the nickel mineralisation (Figure 7 on previous page). Significant intersections from previous drilling at the Olympia Prospect include the following:

- 5.8m averaging 3.00% nickel, 1.96% copper and 5.3g/t PGM;
- 3.7m averaging 2.20% nickel, 1.82% copper and 3.5g/t PGM;
- 8.0m averaging 1.23% nickel, 1.62% copper and 3.8g/t PGM; and
- 5.8m averaging 3.64% nickel, 2.77% copper and 7.0g/t PGM.

Previous drilling at other prospects has also intersected significant but generally lower grade mineralisation as follows:

- 12m averaging 0.61% nickel, 0.255 copper and 0.73g/t PGM at the Agora Prospect;
- 10m averaging 0.69% nickel a the Leros Prospect;
- 18m averaging 0.67% nickel and 0.63% copper at the Olympia South Prospect;
- 8m averaging 0.43% nickel at the Paros Prospect; and
- 4m averaging 1.34% nickel, 0.24% copper and 0.58g/t PGM at the Rhodes East Prospect

Collurabie also has significant gold targets, such as the Naxos Prospect, where previous drilling has intersected 2m averaging 2.47g/t gold from 70m; 10m averaging 0.27g/t gold from 34m including 2m averaging 2.4g/t gold from 36m.

RXL believes there are several untested drill intersection and anomalies which are drill-ready targets for follow-up and that there are several strike kilometres of favourable but untested ultramafic rocks. The company is planning an initial aircore drilling program starting in the September 2017 quarter.

Bonya has high grade copper but unlikely to be a giant

RXL is reviewing its continued participation in the Bonya Copper Project located about 350km east of Alice Springs in the Northern Territory. The company has a 51% interest and has been funding exploration on the project in the course of earning up to 70% by expenditure of $1.5m by December 2017. While RXL's drilling of VTEM targets has intersected relatively shallow, high-grade copper mineralisation around the old Bonya mine, it is unlikely that there is sufficient mineralisation to justify its own process plant and given the recent exploration results at KGL Resources' Jervois Copper Project 20km to the west, Bonya is now likely to represent only supplementary feed for the Jervois Project.

Capital position and near-term requirements

The company is currently in a very strong financial position as indicated by:

- At 31 March 2017, RXL had cash of $15.0m and no debt (Table 2 over page);
- RXL's cash outflow estimates for the June 2017 quarter includes almost $1.0m for exploration and almost $0.3m for staff and administration costs. We estimate RXL will have cash of around $13.8m at 30 June 2017 and as such will be very well funded for its ongoing exploration activities, including initial programs on the recently acquired Collurabie Nickel Project;
- With its strong cash position, RXL will not need to raise any further capital over the next few years to support its ongoing exploration, project development and

administration expenses but it may need to raise additional equity capital if it identifies a suitable acquisition that is beyond its current cash reserves; and

- RXL is also due a deferred payment of $3.75m cash in relation to the sale of its 49% interest in the Reward Zinc Project. That payment is due at the earlier of a Bankable Feasibility Study being completed on the Project or 6 years from February 2017.

Table 2 - RXL's quarterly cash flows

	Dec-14 (a)	Mar-15 (a)	Jun-15 (a)	Sep-15 (a)	Dec-15 (a)	Mar-16 (a)	Jun-16 (a)	Sep-16 (a)	Dec-16 (a)	Mar-17 (a)	Jun-17 (e)
Exploration & evaluation $k	(1,306)	(472)	(1,782)	(329)	(559)	(160)	(245)	(169)	(133)	(115)	(966)
Administration $k	(424)	(286)	(258)	(315)	(527)	(70)	(283)	(195)	(467)	(727)	(286)
Capital raised $k	0	22	3,635	0	1,887	(89)	0	946	0	0	0
Interest & Other $k	(298)	4	(187)	(2,294)	(18)	1	2	172	131	14,938	75
Total quarterly cash flow $k	(2,028)	(732)	1,507	(2,938)	783	(318)	(526)	754	(469)	14,096	(1,177)
Quarter end cash $k	**2,919**	**2,187**	**3,595**	**657**	**1,440**	**1,122**	**596**	**1,350**	**881**	**14,997**	**13,800**
Shares on issue (diluted) m	850	850	1,046	1,046	1,181	1,181	1,181	1,236	1,236	1,236	1,236

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Forthcoming news flow and value catalysts

- **Fisher East** – Results from the diamond drilling phase of the current Fisher East drilling program ;
- **Mt Fisher** – Results of the recently completed aircore drilling program;
- **Collurabie** – Results from the upcoming aircore drilling program due to start in the September 2017 quarter; and
- **Acquisition** – Successful involvement in a suitable scale growth project.

Acquisition targets are gold, silver, copper and zinc

RXL is targeting gold, silver, copper and zinc projects in Australia preferably but also in jurisdictions with secure mining laws and well developed mineral title continuity and security. The company has previously operated in overseas jurisdictions when it was exploring for zinc-lead in South East Asia from 2005 to 2009. RXL is seeking projects ranging from the advanced exploration stage (either having a defined Resource or being close to having one) through to those at the feasibility and production stage. The company is not seeking grass roots exploration projects.

Valuation mainly based on Fisher East

RXL is a highly speculative investment with its most advanced project (Fisher East) in the Pre-Feasibility Study stage. We have only undertaken preliminary financial modelling of the Fisher East Project to which we have applied a heavy risk rating (applying a discount of 55% to the calculated net present value (NPV) using a 10% discount rate). We have assumed a mining operation at Fisher East based on producing about 350ktpa of ore that is trucked up to 200km to be toll milled at one of several currently idled modern nickel processing plants in the region starting in mid-2020. Our other valuations (except for the residual payment for the Reward Project) are based on the exploration potential of the projects, which is related to their geological style and settings and our assessment of their prospectivity.

RXL's value is principally leveraged to the success of three projects:

- Fisher East Nickel Project, particularly the potential for an approximate doubling of the resource base as a prelude to a successful mine development in the next few years;
- Mt Fisher Gold Project, particularly the potential for the DRM farm-in to define a significant gold resource that could be commercialised at DRM's nearby Andy Well processing plant if it is not big enough to justify its own processing plant; and
- Collurabie Nickel Project, particular potential for a significant resource to be defined that could be commercialised on its own or in association with a potential operation at RXL's Fisher East Project or other potential new nickel developments in the region.

While we continue to see value in the company's Bonya Copper Project, we do not see it as likely to contain a sufficiently significant copper resource to warrant a stand-alone development and it is more likely to be developed as potential later stage satellite feed for a larger development at the nearby Jervois Copper Project after recent exploration success there. Our valuation of RXL's remaining interest in the Reward Project is based on the a risked (90%) NPV value of the remaining $3.75m payment using a 10% discount rate. We note that Marindi Metals (ASX – MZN, not rated) is taking legal action related to the sale by RXL of its Reward Project stake to Teck Resources under what RXL believes is a validly exercised pre-emptive right. Even in the event of an adverse ruling to RXL arising from such legal action over the Reward Project sale, we do not expect RXL to suffer any significantly adverse financial impact as the claimed MZN offer was similar to Teck's.

We have reduced our RXL valuation by 22% to $0.035/sh (Table 3) from the following changes:

- Increase to values for Fisher East nickel (now $28m, previously $24m) and Mt Fisher (now $6m, previously $4m) and addition of Collurabie ($0.5m after costs); and
- Reduction in values for Reward Project (now a total of $17.8m of which $15.8m cash received, previously $23m) and Bonya Copper Project (now $2m, previously $9m).

Table 3 - Valuation summary for RXL

	$m	$/sh
Fisher East Nickel Project	25	0.019
Mt Fisher Gold Project	5	0.004
Collurabie Nickel Project	1	0.001
Bonya Copper Project	2	0.002
Reward Project (risked, discounted value of remaining payment due)	2	0.002
Total for mineral assets	4	0.003
Corporate overheads	-10	-0.008
Enterprise Value	**29**	**0.023**
Net Cash	16	0.013
Total Valuation	**45**	**0.035**

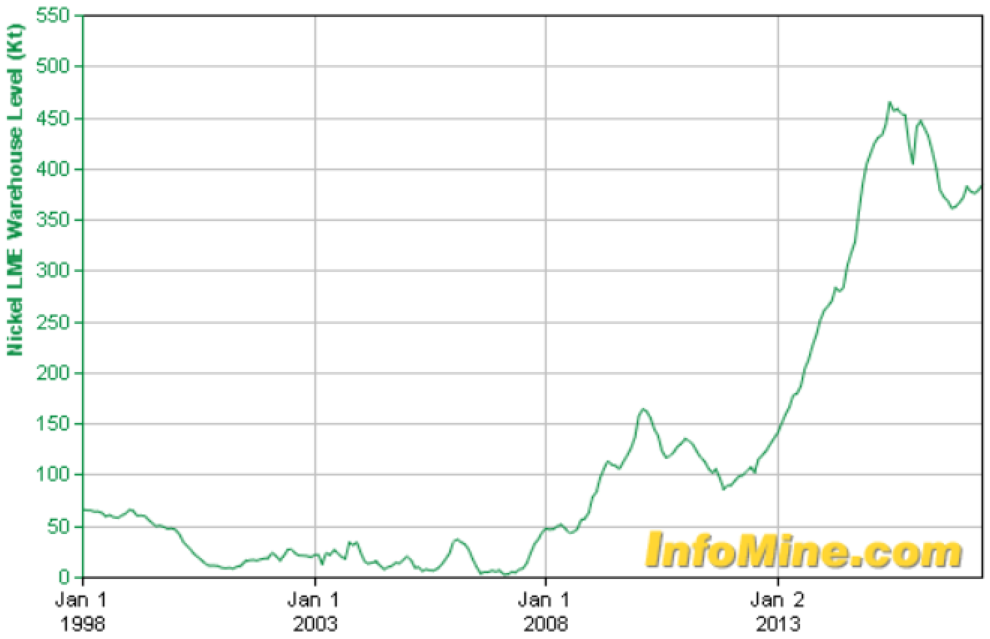
SOURCE: BELL POTTER SECURITIES ESTIMATES NOTE: MAY NOT ADD DUE TO ROUNDING AND DILUTION

High nickel stockpiles pressure the price

Nickel stockpiles not helped by weaker Chinese stainless demand

Even higher nickel laterite production is overwhelming rising demand for nickel applications from sulphides, leading to further growth in already large nickel stockpiles that are not far below all-time highs and are continuing to exert downward pressure on the nickel price. The rising nickel laterite production comes after the Philippines, which has become by far the dominant source of nickel laterite for nickel pig iron (NPI), has overturned their previous plan for wide scale open pit mine closures and Indonesia has indicated it will relax its ban on exports of unprocessed ores and has started to grant export permits for nickel laterite ore to Indonesian companies. The expanded scope for more NPI production from increased nickel laterite supply comes as China is experiencing a decline in stainless steel demand, which is leading to a build-up in visible nickel stocks on terminal exchanges. Current nickel stocks are 376kt, which is up 4% from the recent low of 360kt in October 2016 but is 3% down from the recent peak of 387kt in March 2017 and is 20% below the all-time peak of around 470kt in April 2015 (Figure 8). Compared to stocks of other base metals in terms of days of supply, however, nickel stocks are dramatically higher than all the others currently. Reflecting the current high nickel stocks situation, the Shanghai Futures Exchange (SFE) has recently approved an additional three warehouses for delivery of nickel, adding a further 30kt of storage capacity to take its total to 166kt. Current SFE nickel stocks stand at 78kt.

Figure 8 - Chart of LME nickel stocks since 1998



SOURCE: INFOMINE.COM

Revamped Chinese stainless steel capacity = more nickel demand?

Chinese stainless steel capacity is being expanded even though demand in the December 2016 quarter was weaker due to falling prices and high stocks. A new 1.1Mtpa stainless steel plant is to be built by Jiangsu Delong Nickel Industry Co (Delong Nickel) in Yangcheng, replacing an existing but closed 1.4Mtpa plant in Xuzhou City that is being dismantled and output from Delong Nickel's 2mtpa capacity stainless steel plant that was dismantled six months ago on government orders.

Delong Nickel is China's third biggest nickel pig iron producer, just behind Tsingshan Group and Shandong Xinhai Technology Co. Delong Nickel can produce 60,000-70,000 tpm of NPI with 10% nickel content at full capacity. However, Delong Nickel has produced only around 30,000 tpm of NPI recently due to low nickel prices. Delong Nickel is also building a rotary kiln electric furnace (RKEF) plant to produce NPI in Indonesia, with ultimate capacity to produce 1Mtpa of NPI with 10% nickel content. Delong's first 33,000 kva electric arc furnace in the RKEF plant was successfully put into operation in April 2017.

Nickel price struggling but recovery back to around US$7/lb still expected

After reaching a recent high of US$11,735/t (US$5.32/lb) in November 2016 under the influence of a potential threat of wide scale open pit mine closures in the Philippines, the nickel price has fallen 26% and retraced to around its 12-month low of US$8,710/t (US$3.95/lb) on 2 June 2017 (Figure 9). The current nickel price of around US$8,970/t (US$4.07/lb) is struggling under the impact of high nickel stocks and weaker Chinese stainless demand. Meanwhile, the growing demand for nickel in a range of lithium-ion batteries, which is occurring off a relatively small base, is expected to become increasingly important. The expected strong growth in nickel demand for the widely forecast strong and sustained growth in lithium-ion batteries is set to underpin higher nickel prices, especially as improving growth in the USA and Europe is expected to lead to renewed growth in nickel for stainless steel. These combined factors are expected to lead to higher nickel prices over the next few years. We are forecasting that nickel prices will recover to around US$7.10/lb (US$15,650/t) by the second half of 2019.

Figure 9 - Chart of LME nickel price (in US dollars)

SOURCE: IRESS

Hope for sulphide nickel as NPI not suited for growing lithium-ion battery manufacture

Although the individual amounts of nickel used in a number of the new generation of lithium-ion batteries is relatively little, demand for these new batteries is continuing to grow strongly for a wide range of applications from portable electric devices to electric vehicles and wall storage. The principal nickel-bearing lithium-ion battery types include lithium nickel cobalt aluminium oxide (known as NCA) and lithium nickel manganese cobalt oxide (known as NMC). The other nickel-bearing battery type is the nickel metal hydride (NMH), which have been around for many years. The nickel used in the manufacture of these nickel-bearing batteries is usually required to be in the elemental or oxide form, meaning nickel in the form of NPI, where the nickel occurs as an alloy of iron, is not suited for battery manufacture. Nickel for battery manufacture generally must come from the processing of nickel sulphide or from certain lateritic nickel processes that produce elemental briquettes or suitable nickel sulphides or oxide products.

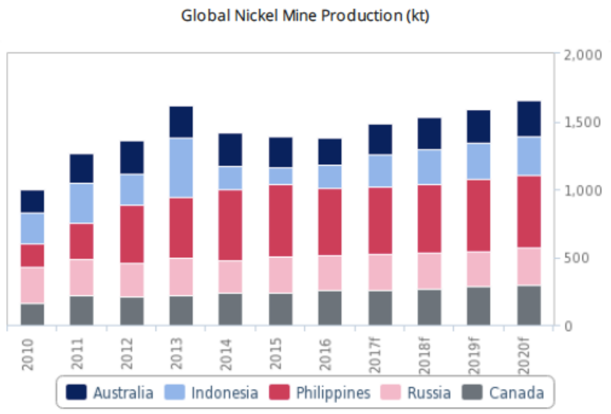
Philippines set to stay largest nickel producer, Indonesia fastest growing producer

Recent nickel production data indicates that world nickel output will exceed demand for the first time since 2013, driven by a moderation in Indonesia's export ban. The Philippines is forecast to remain the world's largest nickel producer over the next four years with production in that country set to stay at high levels after the removal of the previously anti-mining Environment Minister, Gina Lopez (Figure 10). Besides potentially increasing its nickel laterite output, Indonesia is also continuing to grow its NPI production by actively adding additional NPI capacity to consume larger amounts of domestic nickel laterite.

World nickel production forecast to grow strongly out to 2021

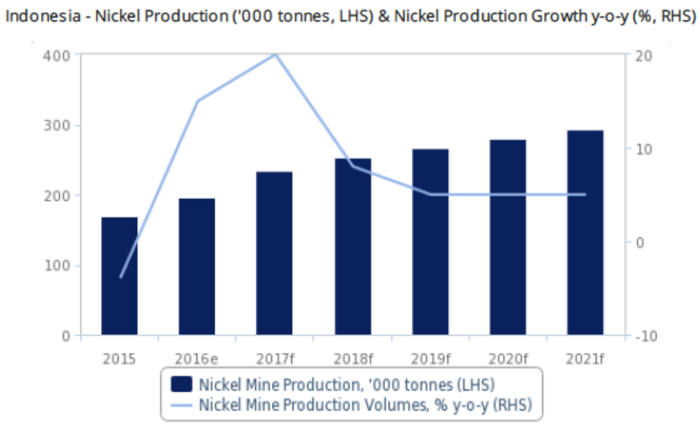
World nickel production is forecast to grow at an annual rate of 3.4% out to 2021 under the influence of rising stainless steel demand and rising demand for nickel in new generation batteries. The forecast of strongly rising nickel production from Indonesia over the next four years sees that country expected to lead the growth in production (Figure 11) but expanded nickel production is also expected to come over that period from Australia and Canada.

Figure 10 - Forecast nickel output by producing countries



SOURCE: BMI/USGS, MINING.COM

Figure 11 – Forecast growth in Indonesian mine production of nickel



SOURCE: BMI/USGS, MINING.COM

RXL already well placed relative to rivals

We have identified ten other junior ASX-listed exploration companies which are broadly comparable to RXL in that they have market capitalisations of less than $50m and have significant nickel interests (Table 4). Six of the comparable companies have nickel Mineral Resources of which two are large laterite deposits (the Kalgoorlie deposit of Ardea Resources and the NiWest deposit of GME Resources) and the other four are sulphide deposits. Like RXL, the four other comparable companies which have defined significant initial resources of nickel sulphide, and the four companies that are yet to define a JORC Resource yet, they have all made various significant intersections of nickel mineralisation, including some relatively narrow but high grade ones but many of the other comparable companies have been deferring further evaluation and extensional drilling over the past year or so because of the weak nickel price.

Strong cash position and nickel drilling activity set to lift resource base

With its strong cash position and current drilling program at Fisher East underway and exploration at the recently acquired and relatively underexplored Collurabie Project expected to get underway in the September 2017 quarter, RXL is well placed to increase the size of its resource base and potentially move ahead of its rivals as a potential early stage developer when the nickel price has begun to recover.

Table 4 – Comparable financial and nickel deposit metrics for junior nickel companies

Company	ASX Code	Share Price ($)	Mkt Cap ($m)	Net Cash ($m)	EV ($m)	Main Nickel Project	Nickel Resources: Nickel (kt)	Nickel Resources: Ave Ni (%)	Other Significant Assets
Ardea Resources	ARL	0.55	41	4	36	Kalgoorlie (WA)	5,637	0.7	Lewis Ponds project (NSW)
Cassini Resources	CZI	0.05	15	3	12	Nebo-Babel (WA)	833	0.4	Succoth copper deposit (WA)
Corazon Mining	CZN	0.01	12	4	8	Lynn Lake (Canada)	83	0.9	Mt Gilmore cobalt-copper-gold (NSW)
Cullen Resources	CUL	0.00	4	1	3	Mt Eureka (WA)	High grade intersections		West Pilbara iron ore project (WA)
Duketon Mining	DKM	0.14	15	5	9	Duketon (WA)	71	0.9	Duketon gold project (WA)
GME Resources	GME	0.06	29	3	26	NiWest (WA)	830	1.0	Golden Cliffs gold (WA)
Poseidon Nickel	POS	0.02	17	(23)	40	Mt Windarra (WA)	72	1.6	Lake Johnston, Black Swan nickel WA
Rox Resources	**RXL**	**0.013**	**16**	**15**	**1**	**Fisher East (WA)**	**51**	**2.5**	**Mt Fisher gold (WA); Collurabie nickel (WA)**
S2 Resources	S2R	0.16	40	20	20	Taipan (WA)	High grade intersections		Polar Bear (WA); Scandinavian base metals
St George Mining	SGQ	0.10	25	6	19	Mt Alexander (WA)	High grade intersections		East Laverton gold-nickel project (WA)
Talisman Mining	TLM	0.24	45	14	31	Sinclair (WA)	High grade intersections		Monty copper-gold (WA); Sinclair infrastructure

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Rox Resources Ltd (RXL)

Company description – diversified base metals explorer

RXL is a mineral exploration company with three main, Australian based projects which are all located in the northern part of the Eastern Goldfields of Western Australia: the Fisher East Nickel Project, which is 100% owned by RXL; the Mt Fisher Gold Project which is 100% owned by RXL but in which Doray Minerals (ASX – DRM, Buy) is earning up to 70% by expenditure of $10m by 30 June 2021; and the Collurabie Nickel Project, which has recently been acquired and is owned 100% by RXL. The company still has a 51% and the right to earn up to 70% in the Bonya Copper Project located about 350km east of Alice Springs in the Northern Territory, by meeting expenditure of $1.5m by December 2017 but RXL is reviewing its continued participation in that project. RXL also has a $3.75m receivable related to the recent sale of its 49% interest in the Reward Zinc Project.

Investment thesis – Speculative Buy, valuation $0.035/sh

RXL is now actively advancing its main interests of the advanced Fisher East Nickel Project; its nearby Mt Fisher Gold Project currently being explored under a $10m farm-in by Doray Minerals; and the nearby Collurabie Nickel Project, which also has gold potential. The company has demonstrated its ability to identify and unlock significant value from its projects directly by well-managed, value-adding exploration and by engaging appropriate farm-in partners. Unless RXL identifies a suitable project that requires the support of its shareholders, the company is very well-funded to progress its projects for an extended time. We have lowered our valuation by 22% to $0.035 per share reflecting the Reward sale, increased valuation of Fisher East/Mt Fisher and reduced valuation of the Bonya Project. Speculative Buy recommendation retained.

Valuation: Sum of 3 key projects – Fisher East, Mt Fisher and Collurabie

RXL is a highly speculative investment with one project at the PFS stage and two at the mid to late exploration stage. We have therefore not undertaken detailed financial modelling of potential projects but have done preliminary modelling of the PFS stage project. The company's value is leveraged to the success of its three projects:

- The Fisher East Nickel project is located around 150km northeast of Leinster, Western Australia. RXL has defined a high grade Mineral Resource of 2.0Mt grading 2.5% nickel for 51kt contained nickel. The resource includes high-grade, massive sulphide components, occurs over a 3km strike length and is open along strike and at depth. A mining study at PFS level on Fisher East in April 2016 indicated that the project would benefit from having a larger resource/reserve base to process, which would make a stand-alone plant more attractive but the toll treatment route also gives a positive way forward and underscores the viability of the Fisher East Nickel Project. RXL has recently carried out an RC and diamond drilling program to evaluate additional targets;
- The Mt Fisher Gold Project is located adjacent to the Fisher East Nickel Project and is currently subject to a farm-in by DRM, which is spending up to $10m to earn up to a 75% interest by exploration targeting the definition of a significant gold resource that could be commercialised at DRM's nearby Andy Well processing plant if it is not big enough to justify its own processing plant; and
- The Collurabie Nickel Project is a recent and counter cyclic acquisition by RXL where there is considerable upside and potential to define collectively significant high grade nickel-copper-cobalt-PGM mineralisation in a Raglan-style setting by appropriate and

consistent exploration that could potentially be relatively easily and cost-effectively monetised using regional processing facilities in a higher nickel price environment.

We are not expecting RXL to be raising any additional over at least the next twelve months or so to fund ongoing exploration and administration but we recognise that, if the company were to identify a suitable acquisition that might require more funding than its cash resources could allow, RXL may seek to raise the necessary additional funding by way of equity.

Risks

Risks to resources sector equities include, but are not limited to:

- **Commodity price and exchange rate fluctuations**. Future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Infrastructure access.** Commodity producers are reliant upon access to transport infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate and cause significant changes to operating and capital costs. Key mining operating costs are linked to energy and labour costs.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies' assets can be located in countries other than Australia and are subject to the sovereign risks of that country.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **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 operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **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.
- **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 transactions.

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.

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Exploration Risk Warning:

The stocks of resource companies without revenue streams from product sales should always be regarded as speculative in character. Since most exploration companies fit this description, the speculative designation applies to all exploration stocks. The fact that the intellectual property base of an exploration company lies in science and is generally only accessible to the layman in a limited summary form adds further to the riskiness with which investments in exploration companies ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Exploration and regulatory risks are inherent in exploration stocks. Exploration companies engage in exploration programs that usually have multiple phases to them where positive results at some stages are not indicative of ultimate exploration success and even after exploration success, there is often insufficient economic justification to warrant development of an extractive operation and there is still significant risk that even a development project with favourable economic parameters and forecast outcomes may fail to achieve those outcomes. Investors are advised to be cognisant of these risks before buying such a stock including **Rox Resources Ltd** (of which a list of specific risks is highlighted within).

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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; (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; and (3) the analyst responsible for preparation of this report did not hold any interest in the securities of Rox Resources Limited at the date of this report.