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Axiom Mining Limited (AVQ)

**NICKEL PROJECT WITH WORLD CLASS POTENTIAL**

Axiom Mining Limited (ASX: AVQ) is a mineral exploration company seeking to transition to a production company through the development of the Isabel Nickel Project in the Solomon Islands, a potentially world class nickel deposit. The company has interests in a number of other prospects throughout the Solomon Islands and Australia, however the near-term focus will be the development of the Isabel Nickel Project, for which feasibility studies are being completed for an initial 2Mtpa mining operation.

**KEY POINTS**

Isabel Nickel Project (80% Interest) – The Isabel Nickel Project, in which AVQ has an 80% interest, is potentially a world class nickel deposit located in the Solomon Islands. The deposit has high grade nickel prospects according to the drilling completed by the company thus far. The company is seeking to develop an initial 2Mtpa mining operation. An initial JORC Resource statement is expected to be completed by 30 September 2015.

Strategic Partnerships - In December 2014, AVQ entered into a strategic partnership with the Anitua Group (mining services group). The Anitua Group provided $5m to AVQ in funding as part of the agreement, which has since converted to equity in AVQ. The company has also entered into a joint venture with the traditional landowners, the Kolosori and South San Jorge tribes, who have the remaining 20% interest in the Isabel Nickel Project. The ability to develop a relationship with the landowners has been key to the Project.

Off-take Agreement - The company is in the final stages of securing an off-take agreement for the Isabel Nickel Project. This will be a significant milestone for the company and will likely secure funding for the development of the Project.

Capital Position – At 30 June 2015, AVQ had $814,000 cash on hand and no debt. In July 2015, the company raised $5m at a price of $0.37 per share from institutional, sophisticated and professional investors. This capital is expected to be largely exhausted during the 4Q’15.

Valuation – We have assigned a valuation of $1.82 per share for AVQ. The valuation is based on the capital and operating cost estimates detailed in the Scoping Study. The valuation is based on a DCF over a 10-year period project life at a discount rate of 10% and refers to AVQ’s 80% interest in the Project. The valuation is based on the current number of shares on offer. The per share value will likely be diluted as more capital is raised. We have not assigned any value to the other prospects held by the company. Successful exploration of these prospects will provide additional value.

Investment View – While in the early stages of development, the Isabel Nickel Project provides significant upside value for the company, based on the cost and production estimates delivered in the Scoping Study for the initial mining operation. The project seeks to take advantage of supply restrictions in the market that have arisen as a result of the ban on unbeneficiated ore exports by the Indonesian government. The completion of the JORC Resource statement will likely be a share price catalyst as will finalisation of the off-take agreement. We note there are risks associated with the company, including the requirement for additional capital, which may dilute existing shareholder positions if capital is raised through equity, and the outcome in the Court of Appeal.
SWOT ANALYSIS

STRENGTH

♦ The Isabel Nickel Project is expected to generate a high margin as a result of the expected low capital and cash costs.
♦ The Isabel Nickel Project is close to a natural deep water harbour.
♦ The Isabel Nickel Project is permitted with local landowner participation.
♦ The Isabel Nickel Project is anticipated to be cash flow positive within 12 months of the commencement of production.
♦ An initial JORC Resource statement is due at September-end. This will provide some greater certainty regarding the resources and grade and will likely act as a catalyst to investor interest.
♦ The company is in the final stages of completing an off-take agreement for the Isabel Nickel Project ore. An off-take agreement significantly reduces the risk of the Project and will likely secure further funding.
♦ The current Board and Management team have been successful in developing relationships with landowners and third parties to progress the Isabel Nickel Project to its current state.

WEAKNESS

♦ The Isabel Nickel Project is waiting for a decision from the Court of Appeal regarding the Prospecting Licence and 50-year registered lease associated with land in the Project. The company will likely trade at a discount until the outcome is known.
♦ The company has limited cash on hand and will be required to raise capital to develop the first stage of the Isabel Nickel Project. Raising additional capital will dilute existing shareholder positions.
♦ The company does not have a JORC compliant resource as yet, but an initial JORC Resource statement is expected at September-end. The large amount of prior and current drilling shows exceptional prospectivity and continuity of grade.

OPPORTUNITIES

♦ The company has interest in two projects in the Solomon Islands in a proven zone of world class mineral properties.
♦ There is a high potential for resource extension at the Isabel Nickel Project.
♦ The company has the potential to take advantage of the ban on unbeneficiated ore exports by the Indonesian government. There is a need to service the ore supply that was serviced by Indonesia.
♦ The West Guadalcanal Gold Project has good epithermal gold prospectivity.

THREATS

♦ In the event the Court’s ruling is not favourable, this will have a significant adverse impact on the Project with the potential for the company having to cease development of the Project. In the event the ruling was not in AVQ’s favour the company would seek to re-apply for a Prospecting Licence.
♦ Movements in currency rates, particularly the AUD/USD, will impact the revenue and costs associated with the Isabel Nickel Project.
♦ Revenue from the Isabel Nickel Project will be impacted by the nickel price. Nickel prices have weakened significantly over the past 12-months. A continued decline in the nickel price will impact potential revenue from the Project. We note the lower nickel price is offset to some extent by the high indicated grades.
♦ The potential expansion of Philippines laterite ore exports and new Indonesian smelting capacity may impact the ore market.
COMPANY OVERVIEW

Axiom Mining Limited (ASX: AVQ) is an exploration company with nickel, gold and base metals prospects in Australia and the Solomon Islands. AVQ's primary focus is on the development of the Isabel Nickel Project located in the Solomon Islands. The company is seeking to develop an initial mining operation of 2Mtpa at the Isabel Nickel Project. An initial JORC Resource is expected to be completed by September-end with further feasibility studies to follow.

The company has refocused the priorities of the business from the gold/base metals projects in North Queensland to the nickel prospect in the Solomon Islands to take advantage of the Indonesian Government’s ban on unbeneficiated ore. This has resulted in a supply glut in the market.

The company has interests in a number of other prospects however in the near-term the company will be focused on the development of the Isabel Nickel Project. These prospects may provide upside value for the company if exploration activities are successful.

Company History

- June 2010 - Appointment of a new board and management team.
- February 2011 - Obtained 50 year lease over Isabel Nickel deposits.
- April 2011 - Prospecting Licence granted by Solomon Islands government over Isabel Nickel deposits.
- July 2011 - Commencement of High Court battle with Sumitomo over the highly sought after Isabel nickel deposit.
- August 2013 - Project generation identified West Guadalcanal Gold Project in the Solomon Islands.
- October 2013 - Commencement of Solomon Islands High Court trial for the final determination on the litigation over the Isabel nickel deposit.
- September 2014 - Win for AVQ in the Solomon Islands High Court, with the Court upholding Axiom’s land and exploration rights over the Isabel nickel deposit and rejecting all of Sumitomo’s claims.
- October 2014 - Exploration re-commenced at Isabel Nickel Project and appeal against High Court ruling lodged.
- December 2014 – Entered into agreement with a strategic partnership and A$5 million funding with Anitua Ltd, a successful Papua New Guinea mining services company.
- June 2015 - Completion of Court of Appeal hearing with judgement reserved.
- September 2015 – Announcement of JORC Resource statement for expected at September-end.

Strategy

The early development of the Isabel Nickel Project remains the prime focus of the company. A gap in the market by the Indonesian Government’s ban of unbeneficiated ore exports commencing in January 2014 has created a market gap in smelter feed supply. Indonesia is building new NPI capacity but it is expected that the gap in high grade nickel laterite feedstock will continue for some time. The strategic partnership with Anitua Ltd, a successful Papua New Guinea mining services company will enable a quick project start-up.

The key is being in a position to supply nickel ores of >1.5% nickel content to the smelters. While China is the key consumer of nickel for primary stainless steel production, its domestic production is significantly lower than its demand. The reliance on exports, and in particular, the higher grade laterite ores from Indonesia have created a window for new entrants, and the market has few barriers except quality. Other companies such as Solway, Cunico, POSCO, Sumitomo, QNi, and the Chinese Nickel Pig Iron Smelters are possible consumers of AVQ’s DSO products.
AVQ will be well positioned to participate with several distinct advantages:

- The ores will be generally higher grade than those produced in the Philippines, meaning they can compete directly in this segment.
- AVQ’s business model is to mine and ship nickel ore from the Isabel in two product categories:
  - A DSO 1.8% Ni Direct Shipping Ore (DSO) product.
  - A lower grade 1.5% Ni DSO product.
- AVQ believes it can supply 2-5% of new laterite ore supply to 2030, based on International Nickel Study Group projections.

FINANCIAL POSITION

At 30 June 2015, AVQ had $814,000 cash on hand and no debt. In July 2015, the company raised $5m at a price of $0.37 per share from institutional, sophisticated and professional investors. This capital is expected to be largely exhausted by the 4Q’15.

The company has $5m of bank guarantees being held in conjunction with the Court appeal. The guarantees are recoverable upon obtaining a favourable judgment. The guarantees will likely cover the company for a further quarter.

The company has 38.7m unlisted options on issue. At the date of this report, 31.1m of the options were in the money. 23.7m options, exercisable at $0.30 mature on 30 September 2015. This could result in a capital inflow of $7.1m if all the options are exercised.

The company is going to need to raise additional capital to develop the initial mining operations of the Isabel Nickel Project. Further drilling and feasibility studies will be required to be completed and the capital costs for the development of the mine are expected to be in the range of US$25m-$35m.

CAPITAL STRUCTURE

The company had 262.5m fully paid ordinary shares and 38.7m unlisted options as 23 September 2015, as detailed in the below table. We note that additional capital that will be required to be raised which will dilute current shareholder positions.

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<tr>
<th>Class</th>
<th>No.</th>
<th>Price</th>
<th>Value</th>
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<td>Options</td>
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<td>Fully Diluted</td>
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<td></td>
<td>114,209,222</td>
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</tbody>
</table>

KEY PROJECTS

ISABEL NICKEL PROJECT, SAN JORGE / SANTA ISABEL (AVQ 80%, 20% LANDOWNERS COOP)

- Following success in the Solomon Islands High Court in September 2014, AVQ has resumed exploration activities in order to progress the project towards early production.
- AVQ’s drilling program confirmed the historical data compiled by INCO and Kaiser for the potential for high grade nickel in saprolite beneath the limonite mineralisation.
- Drilling results of the first phase of resource definition drilling 5000m program have revealed grades of up to 3% nickel and depths of mineralisation that far exceed that recorded by the previous explorers.
- AVQ will take a phased approach to mine development. The initial focus will be on establishing a 2Mtpa direct shipping ore operation on Santa Isabel Island by late 2015 for a relatively low capital expenditure of US$25-$35m.
Work on the infrastructure and operations includes repairs to existing roads, tracks and jetty infrastructure plus the establishment of new roads, a 100-person camp and logistics and transport systems between Honiara, Santa Isabel Island and various sites.

The cashflow generated from the early stages will provide AVQ with the capital needed to consider the next phase of development to add value through on-site processing.

**Overview**

AVQ has an 80% interest in the Project with the balance owned by the Kolosori tribe (10%) and South San Jorge tribes (10%) both of which have a free-carried interest in the Project. The joint venture company, Axiom KB Limited, was established, with the landowners holding 20% and AVQ 80%. Success in the Solomon Islands High Court in September 2014 upheld Axiom’s Prospecting Licence and 50-year registered lease over Kolosori land on Santa Isabel Island.

**Location & History**

**Previous Exploration and Production**

International Nickel Company (INCO) discovered the deposit in 1956. Extensive historical work was carried out by INCO to 1975 with over 7000 samples from drill holes and pits (Fig. 1).

Between 1991 and 1993, Kaiser Engineers conducted a feasibility study to confirm INCO data; including check assaying and metallurgical sampling, resource and reserve estimation, preliminary CAPEX and OPEX estimates, economic analysis and financial modelling. Kaiser produced a non-JORC compliant mineralised zone estimate of 159Mt averaging 1.045% Ni and 0.06% Co over the two deposits, to a depth of less than six metres.

In 2010 AVQ, through its JV Company, Axiom KB Limited, secured a 50-year leasehold. AVQ was granted a Prospecting Licence and commenced exploration.

**Figure 1: Mineralised Areas – Historic Drillhole and Pit Locations**

**Geology & Drilling**

The deposits are laterised ophiolite (nickel source rock) in origin with well-developed limonite and saprolite zones from the surface. Shallow drilling to 30m shows the overall geological structure, where a Limonite zone of between 0-15m thickness grading up to 1.5% nickel overlays a 5-15m thick Saprolite zone grading from 1.0->3.0% nickel (Fig. 2). The 30-35m deep mineralised zone has underlying bedrock. The iron content diminishes with depth. The drilling was planned and executed to confirm the historical drilling by INCO in the 1970s and is compliant with JORC resource estimation methodology.

AVQ completed diamond coring using HQ and NQ triple tube to maximise recoveries within the mineralised horizons. All assay intervals are based on geological intervals or a 1m length if the geological interval is greater than 1m.
In the current drilling program, average sample recovery exceeded 99%. In most cases laterite core recoveries exceeded 100% due to “swelling”—bit cuttings getting into the inner tube. Axiom has implemented a dry drilling technique in the top limonite zone and a low water technique in the lower saprolite zone, bringing average recoveries to more than 99%.

Figure 2: Longitudinal Section showing Limonite & Saprolite Zones

Source: Axiom Mining Limited

Approvals

AVQ has progressed work on the infrastructure and operations requirements in view of obtaining first production in the December Quarter 2015. This has included repairs to existing roads, tracks and jetty infrastructure plus the establishment of new roads, an initial 100-person camp and logistics and transport systems between Honiara, Santa Isabel Island and various sites.

Safety and environmental protocols and procedures are in place for exploration, and are currently being developed for mining operations. Environmental studies are underway and monitoring equipment has been installed.

Key Milestones

- Favourable conclusion of the appeal process following the legal case involving Sumitomo.
- Proving up a JORC mineable resource capable of supporting a long term project. The initial JORC Statement is due by the end of September 2015.
- Project financing.

Additionally, the Isabel Nickel deposit shows high mine-ability, which means a quick transition from ground to market. The main area of nickel-cobalt mineralisation occurs from the surface and is free from human habitation, and as such mining development will have minimal social impacts. The deposit is also located close to the shore line, allowing easy seaborne access to regional nickel smelters.

Project Execution

The mine-load-ship operation will be relatively simple with the mineralised zone uninhabited and only covered in sparse vegetation in close proximity to shore. The Kolosori Ridge deposit on Santa Isabel Island is expected to be the initial focus of mining. There is a road to a natural deep water harbour which has space for stockpiling close to jetty. Barges will be loaded at a jetty and then the cargo trans-shipped offshore into larger bulk carriers at an anchorage in Suma Bay (Fig.3). The Suma Ridge and Havihua Ridge orebodies will have their own haul road. Drilling indicates 20m thickness of mineralised laterite which is expected to be free-digging. A local workforce is available with strong local and Government support and engagement with the project.
AVQ have stated that on-site processing of ore would be considered once cashflow was generated from the initial operation, and in the normal course of things the extents and size of the mineralisation is established. The future entry of a development partner would also be considered.

*Figure 3: Proposed Mine Layout and Port Arrangement*

Source: Axiom Mining Limited

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**OTHER PROJECTS**

**SOLOMON ISLANDS**

**West Guadalcanal Gold Project, Guadalcanal, (AVQ 100%)**

- The targets of Taho, Polo and Mt Tanjili lie within a 10km long carbonate base-metal gold epithermal corridor.
- The West Guadalcanal Gold Project is wholly owned by Axiom Mining and comprises an area of about 485km².
- The tenement is adjacent to known Au-Ag deposits, including the Gold Ridge Mine with potential for epithermal Au and porphyry Cu-Au style deposits.
- In late 2014, AVQ commenced a 2500m initial drill program at Taho. Mineral assemblages indicate the deposit is part of a carbonate base metal low sulphidation epithermal system.

**AUSTRALIA**

**Cardross Copper Gold Silver Project, Queensland (AVQ 100%) (Fig.4)**

- AVQ conducted a review and peer assessment of the Cardross Project Mountain Maid intrusive gold system in 2013.
- The review highlighted significant under-explored areas that are interpreted to be the preferred zones for gold mineralisation.
- These areas include Callaghan Springs, Spaniard, Split Rock and Split Rock East prospects.

**Millungera Oil Shale Project, Queensland (AVQ 100%)**

- The Queensland Department of Natural Resources and Mines granted three EPMs for Blackbull, Whitebull and Redbull areas.
- EPM 25252 has been granted for three years whilst the remaining two tenements EPMs 25256 and 25257 have been granted for five years.
NEWS FLOW

COURT OF APPEAL HEARING

The Court of Appeal hearing in relation to the Isabel Nickel Project was completed as scheduled on 5 June 2015. The Court reserved its judgment, and AVQ is continuing to progress with project development while awaiting this judgment. We would hope a decision is handed down before the end of the year.

Background to the Appeal

AVQ was granted a letter of intent by the Solomon Islands Ministry of Mines in 2010 which allowed exclusive negotiations with landowners. AVQ formed a JV company in Dec-2010, Axiom KB Limited (80% AVQ, 10% Kolosori Tribe and 10% South San Jorge Tribes) and was granted a Surface Access Agreement covering the Isabel project. Axiom KB Ltd also has a 50 year lease over most of the land covering the nickel deposits. A Prospecting Licence was granted to Axiom KB Ltd in April 2011. In July 2011, Sumitomo lodged a civil claim against the government of the Solomon Islands and the landowners, and as part of this case enjoined Axiom KB.

The Solomon Islands High Court in September 2014 upheld Axiom’s Prospecting Licence and 50-year registered lease over Kolosori land on Santa Isabel Island. Since then, Axiom KB has resumed exploration activities in order to progress the project. Subsequent injunctions and appeals by Sumitomo have either been set aside or are in the process of being considered.

AVQ successfully filed a costs claim for the High Court proceedings, amounting to A$5m. In January 2015, SMM Solomon Limited (Sumitomo) provided the High Court of the Solomon Islands with two bank guarantees totalling A$5 million. The guarantees relate to costs incurred by subsidiary Axiom KB Limited successfully defending a High Court case and the subsequent appeal by Sumitomo. AVQ will be entitled to recover the costs upon obtaining a favourable judgment in the Court of Appeal.
AVQ has announced that its Initial JORC Resource statement is due by 30 September 2015. AVQ has completed Phase 1 of its resource definition drilling program on the Isabel Nickel Project in Solomon Islands, which has delivered consistent results including grades up to 3% and thickness of mineralisation that extends up to 20m. With a total of 423 holes across 5000m delivered in only three months of resource drilling and significant progress in other areas of the project, the company is confident of achieving the first shipment of ore in the December quarter. AVQ is aiming to have the first three to five years of minable resource under JORC standards defined in the initial JORC Resource Statement. The company then aims to progressively drill and upgrade the mineralised resource throughout the life of the mine.

**ISABEL NICKEL PROJECT JORC RESOURCE STATEMENT IMMINENT**

**LATEST DRILLING RESULTS**

The completed 5000m infill resource definition drilling has shown consistent and high nickel grades in both limonite and saprolite zones. The first stage of the definition program included 100 holes with 3000 metres of drilling to 100 x 100 metre centres.

**14 September 2015 Announcement**

Latest drilling results with high grade saprolite intersections from Phase 1 of Axiom’s resource drilling on Havihua Ridge:

- 15.0m @ 1.95% Ni from 1.0m including 11.0m @ 2.35% Ni from 5.0m.
- 13.0m @ 1.76% Ni from 1.0m including 7.7m @ 2.38% Ni from 4.3m.
- 12.6m @ 1.73% Ni from 2.0m including 7.2m @ 2.42% Ni from 6.8m.
- 10.0m @ 1.88% Ni from 1.0m including 6.7m @ 2.25% Ni from 4.3m.

Additional results with both high grade limonite and saprolite intersections include:

- 18.0m @ 1.49% Ni from 2.0m including 3.0m @ 1.89% Ni from 6.0m (limonite) and 6.4m @ 2.31% Ni from 9.0m (saprolite).
- 14.0m @ 1.49% Ni from 2.0m including 3.0m @ 1.89% Ni from 6.0m (limonite) and 6.4m @ 2.31% Ni from 9.0m (saprolite).
- 14.0m @ 1.59% Ni from surface including 4.0m @ 2.27% Ni from 4.0m (limonite) and 4.0m @ 1.91% Ni from 8.0m (saprolite).

**7 September 2015 Announcement**

Latest drilling results with high grade saprolite intersections from Phase 1 of Axiom’s resource drilling on Havihua Ridge:

- 13.0m @ 1.69% Ni from 1.0m including 8.0m @ 2.12% Ni from 6.0m.
- 17.0m @ 1.58% Ni from 1.0m including 8.0m @ 2.14% Ni from 8.0m.
- 10.5m @ 1.68% Ni from 1.0m including 5.7m @ 2.22% Ni from 5.8m.
- 11.5m @ 1.64% Ni from 1.0m including 6.1m @ 2.26% Ni from 6.4m.

Additional results with both high grade limonite and saprolite intersections include:

- 14.0m @ 1.57% Ni from 1.0m including 6.8m @ 1.86% Ni from 4.0m (limonite) and 3.2m @ 1.93% Ni from 10.8m (saprolite).
- 9.8m @ 1.80% Ni from 2.0m including 4.0m @ 2.14% Ni from 4.0m (limonite) and 3.8m @ 1.99% Ni from 8.0m (saprolite).
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**VALUATION METRICS**

AVQ is an exploration company moving towards an initial JORC Resource Statement and a Feasibility Statement.

We have conducted a speculative valuation using the AVQ assumptions on capital and operating costs. The project parameters and our assumptions are shown below:

- Full-scale production at Isabel will be a throughput of 2.0 Mtpa for the production of approximately 31,000 tpa of contained Nickel metal (the Company envisages a 2Mtpa operation).
- We have assumed production would consist of:
  - 1Mtpa of a DSO 1.8% Ni product.
  - 1Mtpa of a lower grade DSO 1.5% Ni product.
- Capital costs for the full-scale project are estimated to be US$35m (including contingencies). AVQ have in their studies estimated CAPEX at between US$25m and US$35m.
- An estimate of total operating costs per shipped tonne of ore is in the order of US$31/t CIF and will be dependent on final pit and design and project planning (this is the Company estimate).
- Bulk mining open-cut techniques will be employed with direct loading of barges from a wharf. Ore will be transhipped off-shore into larger bulk carriers.
- It is expected that resources will sustain a 10 year mine life, ie >20Mt deposit.
- The cost estimates follow spot pricing of US$81/t CIF for 1.8% average grade product and US$55/t CIF for a 1.5% contained nickel product. It is expected ore will be blended at the mine site to achieve these specifications.
- A US dollar/Australian dollar exchange rate of 70c is assumed over the first ten years.
The Isabel Nickel Project is expected to be cash-positive during the first year of full-scale production. On this basis, a ten-year project achieves a pre-tax NPV (10%) of US$488m (Table 3). An increase in the nickel price will significantly enhance the economics of the project.

This would speculatively value the Company’s 80% interest at about US$1.28/share pre-tax. (A$1.82/share at a US$0.70 exchange rate).

NPV Hypothetical Project

This valuation is speculative, but provides some idea of the potential in the project even at the prevailing nickel price of US$10,000/tonne.

However, based on the indicative quality and purity of the nickel, which through metallurgical testing to date is expected to find ready markets, funding agreements and outstanding exploration upside, we believe AVQ is an attractive proposition in the nickel sector.

PEER COMPARISON

In Figure 5, the relative size and grade for selected projects with JORC resources (measured, indicated, inferred) are tabled. The INCO non-JORC resource from an earlier epoch is included for comparison. These raw numbers provide no guidance on the resources for Axiom’s Isabel Project but show the indicative scale of some nickel laterite deposits in Australia and the Solomon Islands.

The INCO non-JORC resource is included to show the Isabel Nickel Project in terms of relative potential. The INCO estimate was based on some 7000 samples from drill holes and pits. The reported resource size and grade in this diagram does not provide guidance on nickel purity, marketability or possible resource extension in the future.

Source: Company Reports
GLOBAL NICKEL MARKET

NICKEL - ENDOWMENT AND USAGE

Nickel is the fifth most common element on earth. However, with most inaccessible in the Earth’s core it has a much lower relative crustal abundance. Nickel is a versatile metal used in many different applications, within industrial, military, aerospace, marine, and architectural settings. Nickel resources are also found in manganese crusts and nodules on the ocean floor. Primary nickel is used as an alloy predominantly in the production of stainless steels, and in Ferro-nickel, produced largely in Japan and New Caledonia. It can also be used as part of nickel oxides and within other chemicals. Secondary or recycled nickel also finds wide application.

Nickel usage in Austenitic stainless steels can be substituted by high chromium steels and nickel free stainless steels in specific industry applications. Similarly Lithium-ion batteries are replacing nickel-metal hydride in some applications. The wide applicability of nickel makes it a sort after and highly strategic metal. Nickel ore is mined in over 20 countries with the top 10 countries producing 70% of total output with smelting and refining usually carried out within the producer setting. The Philippines, Indonesia, Russia, Australia, and Canada are the largest producers in 2014 when prices averaged US$16,900/t.

Australia has one of the world’s largest reserves at 19Mt and New Caledonia is second with 12Mt (see Figure 6). Global reserves in 2014 totalled some 81Mt. The same USGS report identified land-based resources averaging 1% nickel or greater contain >120 Mt of nickel, with about 60% is in laterites and 40% in sulphide deposits. The decline in new sulphide supply has been replaced in part by laterite production. Within laterite deposits about 70% are lower grade limonitic resources and 30% the deeper saprolitic (silicate) deposits.

At current production rates the Philippines and Canada with 7 and 12 years mine production remaining are the most vulnerable in terms of long term supply picture. (Fig.6) This takes no account of the resource position or the high prospectivity of the two countries. Of significance to AVQ is the speed and scale of the response of the Philippines to bring new mine capacity into production over the next few years.

LONG TERM PRICING

Nickel remains a strategic metal, but has suffered the vagaries of the commodity cycle, with prices performing like many base metal commodities, riding the peaks and troughs of price volatility. Prices at US$11,400/tonne (US$4.50/lb) are approaching those of the GFC trough in 2008-09 (Figure 7) but currently remain around the 30 year average price though the production cost base has escalated in all jurisdictions making new project planning and execution problematic.

The peak prices of May 2007 where nickel spiked to over US$51,000/tonne (US$24/lb) may not be seen for a long time, but as ever, supply and demand fundamentals and politics will have the last word.
SHORT TERM PRICING

The upbeat price forecasts of late 2014 based on a possible supply deficit arising in 2015 from the Indonesian export ban effective from January 2014, have been moderated by a generally downward trend over the past six months. An upturn in April and May was short-lived and now prices have decline from US$14570/t in February to US$10,386 in August. (Figure 8)

Most recently, Bloomberg reported that nickel for three-month delivery was at a two-month low of $12,410/t having seen its largest drop in a month. We might anticipate US$10,000/t nickel as providing guidance for new market entrants. Lower Chinese demand and high inventories, are depressing the price, with the Indonesian export ban not causing panic with some supply response from the Philippines and elsewhere. The nickel majors have maintained output and combined with a high US dollar have kept a lid on prices. The Chinese laterite ore inventories may provide some guidance as to where prices will go in the short term.

Figure 7: 30 year Nickel Price – US$/tonne


Figure 8: Nickel Spot Pricing – US$/lb

![6 Month Nickel Spot](source: Kitco.com)
NICKEL STOCKS

A large increase in stocks in May-June has been offset by a steady run-down in stocks to around 455,000 tonnes or about 22% of expected global production this year. Stocks are high in part because demand has been lower than anticipated. (Fig.9)

Figure 9: Nickel Spot Pricing – US$/lb

Source: Kitco.com

OUTLOOK

The International Nickel Study Group (INSG) met on 20 and 21 April 2015 in Lisbon and reviewed the current outlook and trends in world nickel supply and demand. The following forecast was issued:

World primary nickel usage was 1.78 Mt in 2013 and increased to 1.87 Mt in 2014. For 2015 INSG estimates an increase to around 1.94 Mt. (Fig.10)

World primary refined nickel production was 1.96 Mt in 2013, and increased to 1.99 Mt in 2014. INSG projects a decrease in production which could reach around 1.96 Mt in 2015. There is a degree of uncertainty in these figures in regard to Chinese nickel pig iron production.

INSG members also discussed market trends. The implementation of the Indonesian export ban on nickel ore which took effect in January 2014 is expected to reduce further the nickel pig iron (NPI) production in China despite the increase in nickel ore exports from the Philippines that enabled Chinese nickel producers to keep producing at higher levels than previously foreseen.

Limited NPI production is expected in Indonesia as progress in building up production facilities remains slow. INSG recognizes the significant impact of the current financial, economic and political uncertainty in many parts of the world. The effects of the above on both the supply and demand for nickel are not fully known. INSG cautions that future market developments could alter the forward-looking market balance.
STRUCTURE OF NICKEL PRODUCTION – THE SUPPLY AND DEMAND SCENARIO

The rise and rise of laterite nickel production now exceeds nickel sulphide output, with the geological endowment of laterites far exceeding known sulphide resources which currently contribute most of nickel production.

With few exceptions, laterite deposits and production are largely concentrated in tropical and sub-tropical climates - the Philippines, Indonesia, New Caledonia, Cuba, Papua New Guinea and Brazil. (Fig.11) The first four of these countries have the greatest endowments of >1% nickel resources, but PNG and the Solomons are emerging as highly prospective regions. Axiom’s Isabel Project is situated in this tropical laterite setting.

Sulphide nickel is mostly produced in Russia, Australia and Canada. These deposits are typically >2% nickel. BHP Billiton Ltd has been bearish on nickel and divested some of its nickel interests. The emergence of NPI was a key factor in the decision, analysts say. It is possible that increased NPI production could reduce the demand for nickel metal. Large sums were paid for hard rock sulphide nickel assets with Vale SA, US$19.4 billion 2006 purchase of Inco’s Sudbury operations, and Xstrata PLC, purchase of Falconbridge and its Sudbury nickel assets for more than US$20 billion

The case of the Philippines and Indonesia are illustrative of the market gap which has emerged. The Philippines rapidly expanded its lateritic nickel supply between 2008 and 2011 (Figure 12) has since plateaued. Indonesia was rapidly expanding ahead of the export ban effective from January 2014.

Figure 10: Refined Nickel production (Million tonnes)– 2004-2015

Source: USGS

Figure 11: Nickel production – Top Country Producers 2010-2014

Source: USGS
The 2013 production figures were similar at around 450,000 tonnes of contained nickel. Indonesia through the export ban, is aiming to gain additional benefits from its natural resources by forcing companies to process ore domestically. Indonesian output has halved since the start of 2014 and the restoration of its position will depend on the speed of construction of domestic nickel smelting capacity.

The Philippines saw rapid expansion of production between 2004 and 2012 and is looking to take advantage of the Indonesian export ban with increased exports to China. According to Bloomberg the significant increase in early 2014 came from stockpiles, but the Philippines is planning a supply response from new mining projects to achieve a structural change in the market through the window left by Indonesia.

AVQ is currently negotiating off-take agreements and is well positioned to move quickly to secure its niche in the smelter feed market. With typical annual exports of around 20-25,000tpa of contained nickel we believe this could easily be absorbed within a total global market of 2Mtpa, particularly when quality of feedstock is considered.

NICKEL EXTRACTION AND PROCESSING

Tropical laterites are usually fairly simple mining operations, being close to or at surface, and being relatively free-digging deposits.

The laterite nickel ores are not amenable to physical concentration, and ore shipment costs are high, so processing plants for most of the typical lower grade deposits have to be constructed at the mine site. These Hydrometallurgical processes are typically Pressure Acid Leach (PAL) or High pressure Acid Leach (HPAL) plants used for low grade limonite ores. These are high capex, complex, and require large volumes of sulphuric acid (a significant cost factor) and with most production now involuntary from oil and gas industries or from non-ferrous metals smelters, the acid leach processes are now less used.

Currently, the key to success for new entrants in tropical laterites is grade. Mining in areas without significant transport, smelting capacity or industry infrastructure requires simplification of the flowsheet to achieve a significant profit margin. To achieve this the elimination of either high cost processing in HPAL or the production of pure metal through various high cost processes such as precipitation, solvent extraction or ion exchange followed by electrowinning, pyrohydrolysis etc.

Higher grade direct shipping ores >1.5% can be shipped to Nickel Pig Iron (NPI) smelters which is a low-grade ferro-nickel used in stainless steel. These NPI smelters, primarily in China, have moved from swing producers when nickel price was high to a fast growing structural component of the nickel production industry.

THE RISE OF CHINESE NICKEL PIG IRON INDUSTRY

The nickel smelting industry has also been turned upside down through the rise of Nickel Pig Iron (NPI) production. Nickel Pig Iron (NPI) is a low grade Ferro-nickel smelting process revived in China as a lower cost alternative to pure nickel for the production of stainless steel. The production process of NPI utilises laterite nickel ores instead of nickel metal sold on the world market. NPI is smelted in pig iron Blast Furnaces (BF) and Submerged Arc Furnaces (SAF) using a furnace feed of the imported 1-3% nickel laterite ores with high iron content, coking coal, and a flux usually composed from an aggregate of stone and sand. By smelting and sintering the resulting NPI contains 8-15% nickel.
The bonus for stainless steel producers is by using NPI is they get the nickel content and their iron for about the same price as the pure nickel requirement. NPI now accounts for 40% of Chinese output (>250,000t) from a negligible base in 2005, with nickel cathode, nickel salt and imports making up the bulk of production.

These producers were usually fairly small (<10,000 tonnes) and entered the market during the period of high nickel prices from 2006. The Chinese NPI smelters were often previously producing Ferro-silicates and Ferro-alloys. These are mainly located in Shandong, Shanxi, Inner Mongolia and Jiangsu. The NPI process is high emissions with the Chinese Government tightening of emission controls had led to the closure of many small Blast Furnaces, with the less polluting SAF now the favoured process.

The Chinese NPI industry is reliant on imported nickel ore from laterite deposits in Indonesia and the Philippines. The embargo since 2014 by the Indonesian Government on exports on non-beneficiated ore provides a window of opportunity for new entrants into the NPI business.

There are variable market products:

- The SAF smelters use higher grade ores >1.5% nickel content. Indonesian laterites are usually the higher grade deposits and were supplying over 50% of Chinese NPI feedstock.
- The BF smelters can accept the lower grade ores <1.5% nickel content. Much of this is currently provided by the Philippines, but the BF smelters are gradually being replaced by SAF production.

The NPI alternative was developed in China as a response to the high global price of pure nickel and this cheaper substitute for pure nickel influences the price of nickel on the world market by lowering the demand in certain stainless steel applications. Chinese NPI smelters are uniquely placed to respond to surging nickel prices and meet the market with their lower cost metal. China levies export duty on NPI, but as by far the largest steel producing nation, China is the largest market. Some Chinese companies are planning to build NPI plants in the Philippines or Indonesia, particularly with the Indonesian ore export ban in place.

It seems an obvious choice for the big makers of stainless steel to turn to NPI production, with the promise of higher efficiencies and lower costs than the rag-tag of small Companies can manage. The Hatch report 2012 mentioned that 600kt of new NPI production capacity has been announced in China, though it is expected that in the current demand setting that only some of this will actually eventuate. The key is to obtain sufficient laterite feedstock, and this presents a window for new entrants into the mining of tropical lateritic ores. It also opens up the vista of large smelters going upstream and obtaining direct interests in laterite deposits. This may be of interest to Axiom if it considers entering an agreement with a development partner in the future.

Recent reports have stated that technical innovations such as rotary kiln electric furnace (RKEF) have significantly reduced the costs of NPI production. This development could impact nickel prices in time.

It is the provision of feedstock into this NPI market which is one option in the Axiom strategy and the Company is in a strong position to build a substantial business as supplier of feedstock into the NPI market

CORPORATE ACTIVITY IN THE NICKEL INDUSTRY

Some recent Corporate Activity is summarised here to show that despite the demand and supply situation, and current commodity prices there is still strategic positioning by Companies seeking resources and capacity in the laterite nickel sector. Small cap nickel companies are increasingly in view as takeover options.

- Global Ferronickel Holdings, Inc. (FNI), the Philippines’ third largest nickel producer acquired Southern Palawan Nickel Ventures Inc., which owns at least 90% of Ipilan Nickel Corporation mining in Brookes Point, Palawan ($49m). This is expected to double the company’s annual production capacity, making it the second largest producer of nickel direct shipping ore in the Philippines after Nickel Asia Corp.
- Nickel Asia has acquired Geogen Corporation which owns the Isabela Nickel Project, which covers a total area of 2,392 hectares. Nickel Asia will pay the purchased 240 million shares in cash at P2.02 per share, but it will also pay P209.2 million for the assignment of the advances, for a total of P694 million ($15m).
The takeover by diversified miner Independence Group of Sirius Resources as part of a $1.8 billion acquisition deal in September. Shares of Sirius rose in 2012 when it discovered the high-grade Nova nickel and copper deposit in the Fraser Range.

RISKS

Deposit Growth (Low) - We do not consider this to be high risk. Recent and continuing drill results suggest significant exploration upside at Isabel. Significant grade intersections at shallow depth indicate that the Direct Shipping Ores will be at the premium end in nickel grade and iron content.

Financing (Low) - New projects can only be developed if sufficient capital can be sourced to fund the assessment and construction of the capital items. The current global economic environment has reduced the availability of both debt and equity for mining projects, especially small-to-mid cap resource companies. AVQ has an advantage in that the envisaged Initial operation at Isabel is low Capex at around US$35m, and due to the relatively simple mining and infrastructure requirement, requiring only low sustaining capital. Currently 30% of CAPEX is covered by options and court cost bonds in place.

Development (Low) - The construction and expansion of mining operations are always at risk of cost escalation. AVQ is at low risk of cost escalation for its initial open cut operations due to the required infrastructure being limited to a relatively simple dig-truck-ship operation requiring fairly low cost, haul roads, crushing/screening, and barging operation, without complex metallurgical plant. The low capex and relatively simple product specification provides only a low risk to price escalation.

Commodity Price (Low) - The economic environment remains volatile and the price of nickel is not divorced from this volatility. The price has come off substantially. As AVQ’s price enquiries indicate product ore prices of US$81/t CIF for 1.8% average grade product and US$55/t CIF for a 1.5% Ni product. We believe this project is robust there is significant upside for high grade products in the future. We await a Feasibility Study to define the project metrics, but based on current industry costings we expect significant margins from Isabel Project. We consider the current US$10,000/t nickel price to exceed this level in the medium term.

Currency - The price of nickel is priced in USD and AVQ’s future operational costs will also be priced in USD. AVQ’s projects and cash flow can be negatively affected by a high AUD if a compensating rise in the nickel price does not occur. The Australian dollar has come off strongly against the US dollar to around US$0.70 and is expected to track lower to perhaps US$0.60 in the medium term. This will significantly increase revenues in Australian Dollar terms.

Sovereign (Low) - The Solomon Islands is an independent nation known to contain significant but unexploited mineral endowments. The Government recognises the ownership of minerals is held by the Crown and landowners and the mining industry is administered by the Government. AVQ have the landowners as 20% owners of the Isabel Project and these landowners will also participate in a share of royalty payments to the Solomon Island Government. We believe the current situation in the Solomons is a low risk but untried jurisdiction for mining companies.

Environment (Medium) - An increased focus on mining operations by environmental groups may result in additional restrictions on operations. However, this risk is mitigated by experienced executive and management teams who are aware of the rights and obligations set out in the granting of the Mining permits and Lease. The Isabel project has received necessary approvals to proceed to development.

Ore Body Risk (Low-Med) - There are always uncertainties in ore reserve estimation, mine planning and project evaluation. The extensive drilling to date including recent infill drilling shows strong grades across the mineralised zone and we would consider this a medium risk due to the absence of a JORC compliant reserve and resource estimate.
BOARD OF DIRECTORS

Mr Stephen Williams - Non-Executive Chairman

Mr Williams was appointed Chairman of Axiom Mining in July 2010. Since then, he has overseen the implementation of best practice in corporate governance and has also ensured that the expertise of the Board has been channelled to the appropriate areas of the business. He has played an integral role overseeing our recent business development in the Solomon Islands and is also Chairman of Axiom KB Limited – Axiom Mining’s 80%-owned subsidiary company in the Solomon Islands.

Mr Williams is a corporate lawyer by profession and is an experienced director and chairman of public companies from IPO through to maturity. He is also currently Chairman of Careers Australia Network Limited.

Mr Ryan Mount - Chief Executive Officer and Managing Director

Mr Mount joined the Axiom Mining Board as a Director in April 2009. Following his appointment, he led the crucial restructure of the company – an exercise that saw Axiom gain full control of the company’s assets, define a clear strategic direction appoint a new Board and management team and a listing on the ASX by December 2009.

In mid-2010, Mr Mount accepted the Board’s offer of the CEO position. Since his appointment, he has been relentless in driving and refining Axiom’s operations, and as a result, key components of the business plan have been achieved.

Mr Mount led the pursuit of the world-class Isabel nickel deposit in the Solomon Islands, which included securing title to the deposit in Axiom’s favour after a three year High Court battle.

He has an extensive background in Australian and international financial markets, as well as corporate advisory. Ryan is also a member of the Australian Institute of Company Directors.

Mr Jeremy Gray - Non-Executive Board Member

Mr Gray’s career in mining investment includes appointments as the Global Head of Basic Materials at Standard Chartered Bank Plc, Head of Metals and Mining Research at Morgan Stanley in London and the Head of Mining Research at Credit Suisse in London.

Mr Gray is currently a Director and a Managing Partner of Chancery Asset Management, and holds an Honours degree in Finance from Melbourne University.

Mr Paul Frederiks - Company Secretary

Mr Frederiks has more than 30 years’ experience as a finance and corporate governance executive in the Australian resources sector, with an extensive knowledge base in listed public company reporting and compliance.

He previously held Company Secretary positions for Auzex Resources Limited, Billabong International Limited and China Steel Australia Limited and was also previously the Company Secretary and Chief Financial Officer at Geodynamics Limited and Ross Mining N.L.

Mr Frederiks holds a Bachelor of Business from QUT, and is also a Fellow of CPA Australia, the Governance Institute of Australia and the Australian Institute of Company Directors.

MANAGEMENT

Mr Sailesh Solanki - Chief Financial Officer

Mr Solanki is an experienced finance executive who has a track record in financial leadership for publicly listed mining companies with operations in the Melanesian Pacific islands.

Mr Solanki was previously the Group Finance Manager for Allied Gold Limited, where he managed their Solomon Islands and Papua New Guinea (PNG) finance functions as well as ASX reporting requirements.

He was at Emperor Mines Limited for more than 10 years, where he implemented financial systems in Fiji and PNG, and he also managed the finance and treasury operations for Intrepid Mines Limited through a massive growth phase.

Mr Solanki is a Certified Public Accountant and holds a Bachelor of Business Studies (Accounting).
Mr Juan Jeffery - Executive General Manager - Mining Operations

Mr Jeffery is a mining professional with more than 30 years’ experience. Mr Jeffery has a strong operational background in Australia, Africa and Papua New Guinea at mines such as Porgera and Ok Tedi. He has held Executive, Board and Director roles at companies such as First Quantum, Chalice Gold, URS, BHP Billiton and Rio Tinto's Comalco.

He is also a major projects and materials handling specialist and with substantial experience with clay ores and shipping.

Mr Jeffery holds a Bachelor of Science (Hons) Geology (Geomechanics & Mineral Economics) from RAU University, Johannesburg and a Bachelor of Science Dual degree in Geology and Engineering, and post graduate diploma in Banking and Finance (Australia).

Mr George Bujtor - Technical Advisor - Isabel Nickel Project

Mr Bujtor is the former Managing Director of Toledo Mining, where he developed the Berong laterite nickel mine in the Philippines in 12 months. Mr Bujtor is a mining industry veteran who has held high level executive roles in Rio Tinto and other companies across a broad range of commodities.

Mr Jovenal Gonzalez - Exploration Manager - Isabel Nickel Project

Mr Gonzalez has more than 32 years’ experience in mineral exploration and operation in Papua New Guinea, Indonesia, Myanmar and the Philippines. Mr Gonzalez has significant experience in nickel laterite resource definition and development having managed a number of significant multi rig drilling programs. Mr Gonzalez also has material operational experience in nickel laterite operations, including grade control and product sampling requirements.

Mr Gonzalez holds a Bachelor of Science in geology and is a member of the AusIMM.
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