

2 Aug 2019

ALITA RESOURCES LTD (A40)

Offtake partner(s) and cash needed

Alita Resources Limited (A40) formerly (Alliance Mineral Assets Ltd) announced a corporate and operations update along with its June Quarterly. The Company had a tough June Quarter mainly due to the lack of demand from its offtake partner Jiangxi Bao Jiang Lithium Industrial Limited (JBLLIL) with only 18.7kt of spodumene concentrate shipped in the quarter, no sales were completed in June or July. This meant A40 built a stockpile of 40.8kt of concentrate by the end of the quarter. This is a common theme among A40's spodumene producing peers as GXY has ~59kt, AJM ~12kt and MIN is currently commissioning its Wodgina concentrator. The underlying reason behind the concentrate stockpile build is the slower than anticipated ramp-up of lithium refineries which has meant that demand for concentrate is currently low. A40 has subsequently shipped 10kt of concentrate (we estimate ~A\$10m in revenue). The Company is currently in discussions with potentially new offtake partners, however, most of the interest is from smaller customers. Although one larger Company is interested in supply in the order of 20-40ktpa, if successful, would commence in late CY19 or early CY20. Given the quality of the Bald Hill product (>6.0% Li₂O + <0.5% Fe) there is potential for it to displace other lower quality concentrates.

Minimum cash balance of A\$15m by October

The Company's cash balance reduced from A\$20.1m on the 30th of June to A\$6.6m on the 25th of July. A40 completed a conditional placement to a subsidiary of JBLLIL for A\$10m at 20cps, this brings their cash balance to A\$16.6m. We estimate that A40 will need to complete an additional 35Kt of shipments (excluding shipment already completed) in the SepQ, to ensure its cash does not fall below the newly adjusted A\$15m minimum cash balance by 1st of October. A40's loan facility was altered by the lenders as a result of the changes to the mining plan, the Company is now required to have a minimum cash balance of A\$15m (previously A\$5m).

Fines circuit was a big value driver in our model

The fines circuit was a big value driver for our model as it increased production for very little incremental operating costs by increasing throughput and recoveries. Now that the fines circuit has been deferred, we model its implementation at the start of CY21 and assume remaining capex spend of A\$16m, we also lowered our production whilst maintaining our annual operating costs. It shows the severe issues faced by the industry that positive NPV, partially constructed projects can't be completed.

Maintain Speculative Buy Recommendation

A40 produced 38.7Kt of 6.2% Li₂O in the JunQ (38.2Kt MarQ) reaching the upper end of guidance 1H CY19 (77Kt vs guidance of 65-80Kt). The slight increase in production was largely thanks to the rise in throughput to 405.9Kt at head grade of 0.90% Li₂O (vs 397.1Kt at 0.89% MarQ), recoveries were steady at 67%. Due to the construction of the fines circuit being halted pending a strategic review we have adjusted our recoveries to 68% until the start of CY21 when we assume the fines circuit is completed and recoveries increase to 72.5%. We have a base NPV of 20cps (from 29cps) and a price target of 23cps (from 29cps). There has been a significant increase in the near-term risk surrounding offtake and short-term funding although if this is overcome there remains substantial upside for shareholders.

Share Price	\$0.081
Valuation	\$0.20
Price Target (12mth)	\$0.23

Brief Business Description:
Spodumene producer in WA

Hartleys Brief Investment Conclusion
Previously known as TAW.asx. Good quality and quantities of spodumene. Short mine life but exploration potential to extend.

Chairman & MD

Geoff McNamara (Non-exec Chair.)
Mark Calderwood (MD)

Major Shareholders post merger

Galaxy Resources (11.8%)
Burwill (6.3%)
Weier / Jiangte Special Electric Motor Co. Ltd (9.1%)
Tribeca (5.4%)

Company Address

Level 3, 20 Parkland Rd,
Osborne Park, WA, 6017

Issued Capital 1476.4m

- fully diluted 1505.3m

Market Cap A\$119.6m

- fully diluted A\$121.9m

Cash (25 Jul 19a) A\$16.6m

Debt (25 Jul 19a) A\$41.9m

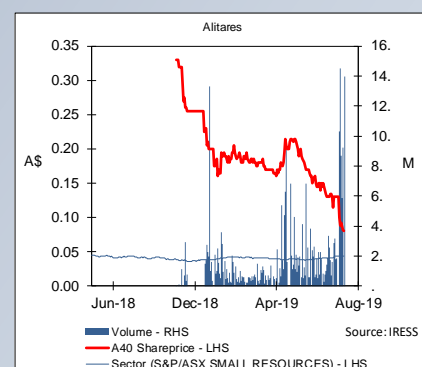
EV A\$144.8m

EV/Resource Spod. A\$34.2/t

EV/Reserve Spod. A\$76.1/t

	Prelim. (A\$m)	FY18a	FY19e	FY20e
Prod (Li Spod. eq)	0.020	0.147	0.197	0.197
Op Cash Flw	-22.3	-5.4	23.8	23.8
Norm NPAT	-12.9	-50.4	-3.1	-3.1
CF/Share (cps)	-1.0	-3.8	-0.2	-0.2
EPS (cps)	-1.3	-5.3	-0.3	-0.3
P/E	-8.0	-2.2	-38.3	-38.3

	Mt	Li ₂ O	Spod.
Resources (Li ₂ O)	26.5	0.96%	4.2
Reserve (Li ₂ O)	11.3	1.01%	1.9



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Alita Resources Ltd A40						Share Price \$0.081		2 August 2019 Speculative Buy					
Key Market Information								Directors - post merger					
Share Price						A\$0.08		Company Information					
Market Capitalisation - ordinary						A\$120m		Geoff McNamara (Non-exec Chair.) Level 3, 20 Parkland Rd,					
Net debt						A\$25m		Mark Calderwood (MD)					
Market Capitalisation - fully diluted						A\$122m		Mark Turner (Exec) Osborne Park, WA, 6017					
EV						A\$147m		Rob Vassie (Non-exec) Ph +61 8 9489 2600					
Issued Capital						1476.4m		Vicki Xie (Non-exec, Weier nominee)					
Options on issue						28.9		Arnold Chan Ming Fai (Non-exec, Burwell nominee)					
Issued Capital (diluted for options)						1505.3m		Ong Kian Guan (Non-exec) http://www.alliancemineralassets.com.au					
Issued Capital (diluted inc. options and new capital)						1505.3m		Geoffrey McNamara (Non-exec)					
12month price target						\$0.23		Top Shareholders					
								Ord					
								Galaxy Resources 11.8%					
								Weier / Jangte Special Electric Motor Co. Ltd 9.1%					
								Burwill 6.3%					
								Tribeca 5.4%					
								Reserves & Resources					
								Mt Li2O % Ta2O5					
								Bald Hill M+I 14.4 1.02% 168					
								Bald Hill Inf 12.1 0.90% 123					
								Bald Hill Total 26.5 0.96% 149					
								Bald Hill Reserve 11.3 1.01% 160					
								Global Total 26.5 0.96% 149					
								Global Reserve 11.3 1.01% 160					
								Production Summary					
								Unit Jun 18 Jun 19 Jun 20 Jun 21					
								Strip 25.0 18.4 8.9 5.7					
								Processed Mill Throughput Mt 0.24 1.46 1.65 1.95					
								Mined grade Li % 0.79% 0.84% 0.91% 0.95%					
								Produced Spodumene - Technical Mt 0.000 0.000 0.000 0.000					
								Produced Spodumene - Battery Mt 0.019 0.129 0.169 0.214					
								Produced Tantalite Mlb pa 0.026 0.229 0.338 0.419					
								Produced Spodumene - Battery Eq Mt 0.020 0.147 0.197 0.252					
								LCE equiv (0.135x Spod) ktpa 2.7 19.8 26.6 34.0					
								Mine Life yr 6 5 4 3					
								Assumed Mining Inventory Mt 11.1 9.8 8.2 6.3					
								Assumed Mining Inventory - Li2O grade % 0.92% 0.93% 0.94% 0.94%					
								Assumed Mining Inventory - Tant grade ppm 126 130 130 130					
								Capex -66.5 -23.0 -6.0 -21.5					
								Costs					
								Unit Jun 18 Jun 19 Jun 20 Jun 21					
								Cost per milled tonne \$A/t 130.5 118.7 95.7 77.7					
								EBITDA / tonne milled ore \$A/t 81.5 -7.7 21.5 27.4					
								Total cost per milled tonne 36 128 105 86					
								Total Cash Costs \$A/t Spod. Ba 434 1,270 877 666					
								\$US/t Spod. B 334 907 636 496					
								C1: Operating Cash Cost = (a) \$A/t Spod. Ba 1,555 1,179 800 601					
								(a) + Royalty = (b) \$A/t Spod. Ba 1,620 1,226 843 638					
								C2: (a) + depreciation & amortisation = (c) \$A/t Spod. Ba 3,074 1,410 983 749					
								(a) + actual cash for development = (d) \$A/t Spod. Ba 4,891 1,390 871 718					
								AISC: (c) + Royalty \$A/t Spod. Ba 3,140 1,457 1,026 786					
								(d) + Royalty \$A/t Spod. Ba 4,956 1,437 914 755					
								Price Assumptions					
								Unit Jun 18 Jun 19 Jun 20 Jun 21					
								AUDUSD US\$/A\$ 0.77 0.71 0.73 0.75					
								Spodumene - Chemical (5.5%) US\$/t 892 713 669 600					
								Tantalite US\$/t 60 60 60 60					
								Hedging / fixed price					
								Unit Jun 18 Jun 19 Jun 20 Jun 21					
								No Yes Yes No					
								Sensitivity Analysis					
								Valuation					
								Base Case 0.20					
								FY21 NPAT -3.1					
								Spot Prices 0.22 (8.6%) -21.3 (589.3%)					
								Spot USD/AUD 0.68, Chemical Spod \$600/t, Tant. \$90/lb.					
								AUDUSD +/-10% 0.14 / 0.27 (-32.2% / 33.7%) -20.7 / 18.4 (570.0% / -696.6%)					
								Spodumene - Technical +/-10% 0.20 / 0.20 (0.0% / 0.0%) -3.1 / -3.1 (0.0% / 0.0%)					
								Spodumene - Chemical +/-10% 0.24 / 0.15 (20.6% / -24.3%) 9.7 / -15.8 (-413.0% / 413.0%)					
								Tantalite +/-10% 0.21 / 0.19 (5.3% / -5.3%) -0.2 / -5.9 (-92.1% / 92.1%)					
								Production +/-10% 0.26 / 0.14 (28.0% / -32.5%) 15.2 / -21.4 (-593.4% / 593.4%)					
								Operating Costs +/-10% 0.16 / 0.24 (-22.8% / 20.2%) -19.2 / 13.1 (523.9% / -523.9%)					
								Unpaid Capital					
								Year Expires					
								No. (m) \$m Avg price % ord					
								30-Jun-19 0.0 0.0 0.00 0%					
								30-Jun-20 11.4 3.4 0.30 1%					
								30-Jun-21 15.6 7.6 0.49 1%					
								30-Jun-22 1.9 0.3 0.18 0%					
								30-Jun-23 0.0 0.0 0.00 0%					
								TOTAL 28.9 11.4 2%					
								Valuation					
								A\$m \$/shr					
								100% Bald Hill (pre-tax NAV at disc. rate of 10%) 211 0.15					
								Other Assets/Exploration 63 0.04					
								LiOH Refinery 55 0.04					
								Hedging / offtakes 24 0.02					
								Corporate Overheads -33 -0.02					
								Net Cash (Debt) -25 -0.02					
								Tax (NPV future liability) 0 0.00					
								Options & Other Equity 9 0.01					
								Total 304 0.20					
P&L													
Unit 30 Jun 19 30 Jun 20 30 Jun 21 30 Jun 22													
Net Revenue A\$m 157.8 198.2 221.4 243.2													
Total Costs ex hedge A\$m -186.6 -173.1 -167.9 -152.2													
EBITDA A\$m -11.2 35.5 53.5 91.1													
- margin -7% 18% 24% 37%													
Depreciation/Amort A\$m -33.9 -36.2 -37.3 -39.4													
EBIT A\$m -45.1 -0.6 16.2 51.7													
Net Interest A\$m -5.3 -2.5 -2.2 -1.5													
Pre-Tax Profit A\$m -50.4 -3.1 14.0 50.1													
Tax Expense A\$m 0.0 0.0 0.0 0.0													
Normalised NPAT A\$m -50.4 -3.1 14.0 50.1													
Abnormal Items A\$m 0.0 0.0 0.0 0.0													
Reported Profit A\$m -50.4 -3.1 14.0 50.1													
Minority A\$m 0.0 0.0 0.0 0.0													
Profit Attrib A\$m -50.4 -3.1 14.0 50.1													
Balance Sheet													
Unit 30 Jun 19 30 Jun 20 30 Jun 21 30 Jun 22													
Cash A\$m 21.4 41.2 61.4 134.4													
Other Current Assets A\$m 50.5 55.4 55.4 52.7													
Total Current Assets A\$m 71.9 96.6 116.7 187.1													
Property, Plant & Equip. A\$m 164.1 133.9 118.1 84.7													
Exploration A\$m 78.0 86.0 94.0 102.0													
Investments/other A\$m 22.7 22.7 22.7 22.7													
Tot Non-Curr. Assets A\$m 264.8 242.6 234.8 209.4													
Total Assets A\$m 336.8 339.2 351.5 396.5													
Short Term Borrowings A\$m 0.2 0.2 0.2 0.2													
Other A\$m 61.9 57.5 55.8 50.6													
Total Curr. Liabilities A\$m 62.1 57.7 56.0 50.8													
Long Term Borrowings A\$m 41.0 41.0 41.0 41.0													
Other A\$m 17.4 17.4 17.4 17.4													
Total Non-Curr. Liabil. A\$m 58.3 58.3 58.3 58.3													
Total Liabilities A\$m 120.4 116.0 114.3 109.1													
Net Assets A\$m 216.3 223.2 237.2 287.3													
Net Debt A\$m 19.7 -0.1 -20.2 -93.2													
Cashflow													
Unit 30 Jun 19 30 Jun 20 30 Jun 21 30 Jun 22													
Operating Cashflow A\$m -0.1 26.2 51.8 88.6													
Income Tax Paid A\$m 0.0 0.0 0.0 0.0													
Interest & Other A\$m -5.3 -2.5 -2.2 -1.5													
Operating Activities A\$m -5.4 23.8 49.6 87.0													
Property, Plant & Equip. A\$m -23.0 -6.0 -21.5 -6.0													
Exploration and Devel. A\$m -8.0 -8.0 -8.0 -8.0													
Other A\$m 0.0 0.0 0.0 0.0													
Investment Activities A\$m -31.0 -14.0 -29.5 -14.0													
Borrowings A\$m 8.0 0.0 0.0 0.0													
Equity or "tbc capital" A\$m 32.5 10.0 0.0 0.0													
Dividends Paid A\$m 0.0 0.0 0.0 0.0													
Financing Activities A\$m 40.5 10.0 0.0 0.0													
Net Cashflow A\$m 4.1 19.8 20.1 73.0													
Shares													
Unit 30 Jun 19 30 Jun 20 30 Jun 21 30 Jun 22													
Ord. Shares - End m 1425.9 1487.8 1503.4 1505.3													
Ord. Shrs - W'ted m 1341.7 1456.9 1495.6 1504.4													
Dil Shares - W'ted m 1341.7 1462.6 1514.8 1532.3													
Ratio Analysis													
Unit 30 Jun 19 30 Jun 20 30 Jun 21 30 Jun 22													
Cashflow Per Share A\$ cps -0.4 1.6 3.3 5.8													
Cashflow Multiple x -20.3 5.0 2.4 1.4													
Earnings Per Share A\$ cps -3.8 -0.2 0.9 3.3													
Price to Earnings Ratio x -2.2 -38.3 8.7 2.4													
Dividends Per Share AUD - - - -													
Dividend Yield % 0.0% 0.0% 0.0% 0.0%													
Net Debt / Net Debt + Equity % 8% 0% -9% -48%													
Interest Cover X na na 7.4 33.3													
Return on Equity % na na 6% 17%													
Analyst: Trent Barnett						2 Aug 19							
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tbc capital could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.													
Sources: IRESS, Company Information, Hartleys Research													

Fig. 1: Earnings Changes

		FY18a	FY19e			FY20e			FY21e		
			Old	New	% diff	Old	New	% diff	Old	New	% diff
Production Spod	Mt	0.019	0.128	0.129	0.9%	0.191	0.169	-11.5%	0.241	0.214	-11.4%
Production Spod Equiv Mt		0.019	0.145	0.147	1.0%	0.223	0.197	-11.5%	0.282	0.252	-10.7%
Selling Price	US\$/t	1166.2	760.9	766.9	0.8%	727.6	728.2	0.1%	654.8	654.3	-0.1%
Net Revenue	A\$m	28.4	155.0	157.8	1.8%	223.8	198.2	-11.5%	248.2	221.4	-10.8%
Total Costs	A\$m	-8.8	-178.5	-186.6	4.5%	-147.1	-173.1	17.6%	-144.0	-167.9	16.6%
- /t USD		-360.3	-876.2	-906.7	3.5%	-478.1	-635.8	33.0%	-379.9	-496.2	30.6%
- /t ore USD		-28.0	-89.2	-91.3	2.3%	-57.3	-76.0	32.8%	-51.1	-64.1	25.5%
EBITDA	A\$m	19.6	-5.4	-11.2	107.9%	87.2	35.5	-59.2%	104.2	53.5	-48.7%
- margin		69%	-3%	-7%	104.2%	39%	18%	-53.9%	42%	24%	-42.4%
Depreciation/Amort	A\$m	-30.7	-33.9	-33.9	0.0%	-36.2	-36.2	0.0%	-37.2	-37.3	0.4%
EBIT	A\$m	-11.1	-39.3	-45.1	14.8%	51.0	-0.6	-101.2%	67.0	16.2	-75.9%
Net Interest	A\$m	-1.9	-5.2	-5.3	1.5%	-2.0	-2.5	22.4%	-1.0	-2.2	121.9%
Pre-Tax Profit	A\$m	-12.9	-44.5	-50.4	13.3%	49.0	-3.1	-106.3%	66.0	14.0	-78.8%
Tax Expense	A\$m	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
Normalised NPAT	A\$m	-12.9	-44.5	-50.4	13.3%	49.0	-3.1	-106.3%	66.0	14.0	-78.8%
Abnormal Items	A\$m	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
Reported Profit	A\$m	-12.9	-44.5	-50.4	13.3%	49.0	-3.1	-106.3%	66.0	14.0	-78.8%
Minority	A\$m	0.0	0.0	0.0		0.0	0.0		0.0	0.0	
Profit Attrib	A\$m	-12.9	-44.5	-50.4	13.3%	49.0	-3.1	-106.3%	66.0	14.0	-78.8%
Capex	A\$m	-67.3	-31.0	-31.0	0.0%	-14.0	-14.0	0.0%	-14.0	-29.5	110.7%
Net Debt	A\$m	15.8	8.1	19.7	144.6%	-54.6	-0.1	-99.8%	-142.0	-20.2	-85.8%

Source: Hartleys Estimates, IRESS

Fig. 2: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Throughput expanded to 2.1Mtpa	Low	High	We assume a fines circuit improves throughput and recoveries, but at the lower end of previous studies
Declining spodumene prices	High	High	A40 is very sensitive to spodumene prices
No equity dilution	High	Moderate	We assume no new equity.
Mine life of 6 years, in excess of current reserve	High	High	We assume a mining inventory higher than the current reserve, which implies exploration success
AUD appreciates	High	Upside / Downside	We assume appreciating AUD. Which impacts our USD cost forecasts.
Exploration success	Moderate	High	We attribute some value to exploration potential beyond the assumed mine life extension.
<i>Conclusion</i>	<i>We believe our A40 assumptions are realistic. The balance sheet and the near term operating cash flow are the biggest risks and stock is exposed to volatile commodity prices. Hence we rate it as speculative.</i>		

Source: Hartleys Research

RISKS

The key risks for A40 (like most mining companies) is earnings disappointments given the industry is volatile and earnings can disappoint due to commodity prices, cost overruns, project delays, environmental regulations, taxation/royalties changes, cost inflation or lower production. Although some earnings disappointments can be short term and only a timing issue, other disappointments can be materially value destructive and can sometimes overhang stocks for a long period of time (for example environmental mismanagement). Such disappointments can be very difficult to predict and share price reactions can be severe and immediate upon disclosure by the company. High financial leverage (if it exists at that time) would add to the problem. Another key risk for miners is maintaining and extending mine life or making the prudent decision to close a mine, given mines are depleted and many have reasonably short lives and often with reducing economics.

PRICE TARGET

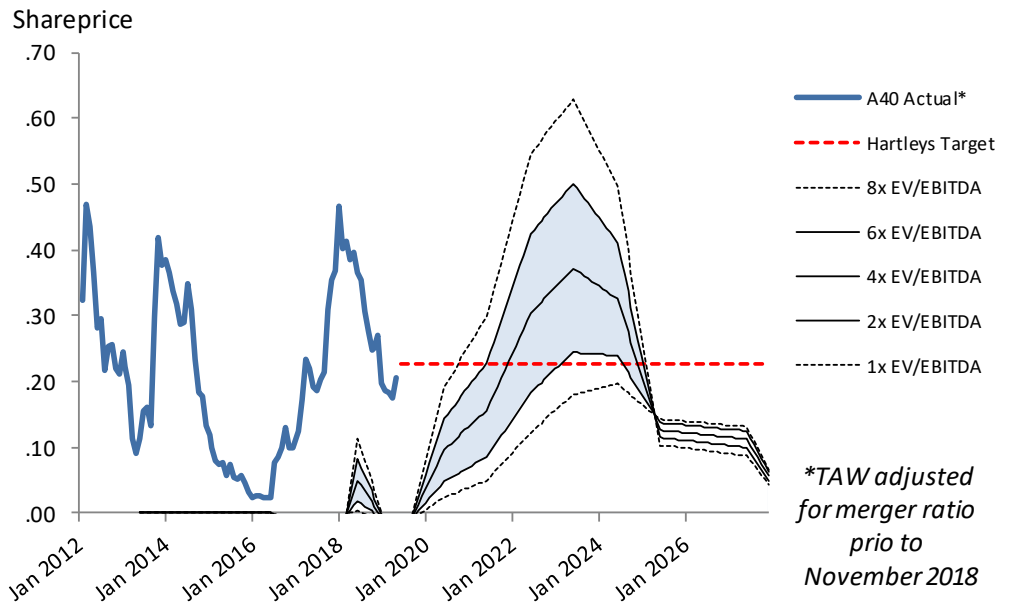
Our price target is 23cps (previous price target 29cps).

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case	80%	\$0.20	\$0.23
NPV at spot commodity (US\$600/t) and fx prices	1%	\$0.22	\$0.23
NPV spodumene US\$450/t, tantalite US\$60/lb	5%	\$0.22	\$0.23
EV/EBITDA of 3.0x	5%	\$0.08	\$0.13
NPV base case at discount rate of 6.0%	9%	\$0.32	\$0.25
Risk weighted composite		\$0.21	
12 Months Price Target		\$0.23	
Shareprice - Last		\$0.081	
12 mth total return (% to 12mth target + dividend)		178%	

Source: Hartleys Estimate

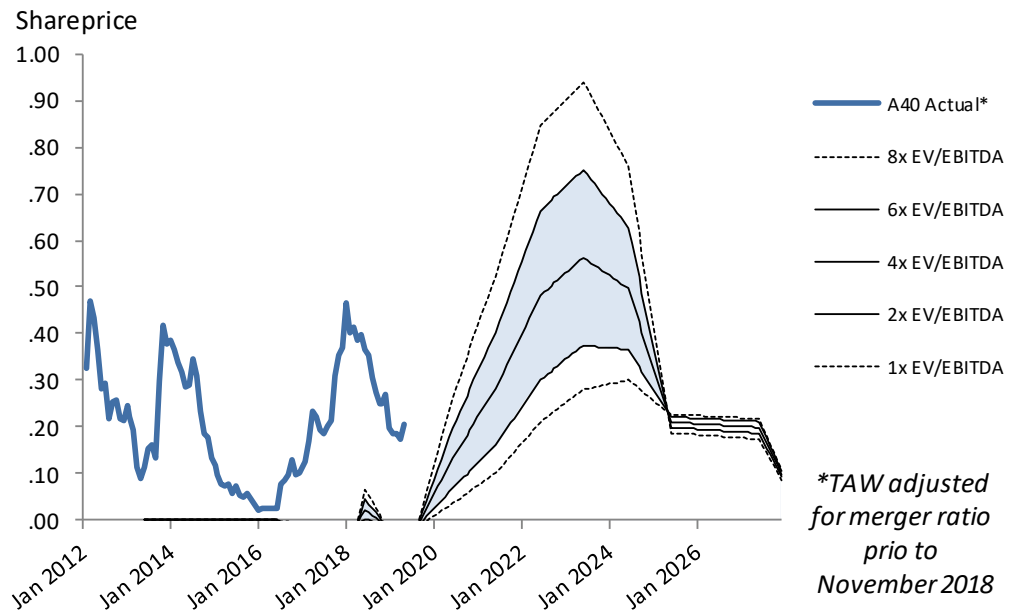
EV/EBITDA BANDS

Fig. 3: EV/EBITDA Base case



Source: Hartleys Estimates

Fig. 4: EV/EBITDA spot case



Source: Hartleys Estimates

HARTLEYS CORPORATE DIRECTORY

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Hartleys Recommendation Categories

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

Institutional Sales

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Digby Gilmour	+61 8 9268 2814
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Wealth Management

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