

EXPLAURUM LIMITED

Ramelius puts Explaurum in play

Ramelius Resources (RMS) has lodged a hostile takeover bid for all Explaurum shares, through a 1 RMS for 4 EXU scrip offer with no minimum acceptance condition. At an RMS share price of 47c the bid values EXU shares at 11.75c each, compared to 7.4c close on Friday, before the bid was lodged. The Explaurum board has advised shareholders to wait for their formal response.

EXU shareholders will be offered the chance to convert to equity in a larger group – one that owns Tampia, plus the Mt Magnet and Edna May operations in WA, and +\$95M net cash and gold.

Third party bid? Improved terms?

In Hartleys' view Explaurum will not stay independent post the bid. Shareholders may have a choice of accepting RMS shares or retaining EXU shares alongside RMS as a substantial/controlling shareholder. Improved terms, or a third party competing bid cannot be ruled out, but we see few obvious candidates with the fit that Ramelius offers.

Prior to the bid we valued RMS at 65-70cps and EXU at 15-17cps, which is consistent with the 4:1 offer ratio. Within the Explaurum model we had minus 11-14cps in equity dilution and corporate overheads; costs that would evaporate in a merged entity. Removal of equity dilution and corporate overheads are among the incentives for the RMS offer. EXU could argue for a better deal, on the basis of valuations before these items, and for a takeover premium.

Tampia drilling and studies progress

EXU has been drilling the Mace prospect at Tampia. Recent results are consistent with our earlier assessment of +20koz over the drilled 500-750m creek section, open to the west. EXU plans to complete a bankable feasibility study (BFS) on Tampia by late November 2018. Recent exploration results at Mace will be included in the BFS.

EXU's Tampia gold project is 130km by road from RMS' Edna May mine. If the offer is successful RMS intends to assess Tampia on both stand alone and ore trucking options. A decision on Edna May Stage 3 is expected by the end of September 2018. The takeover offer shows a distinct lean towards going with the Edna May underground rather than a pit cutback.

Buy recommendation

Hartleys sees the bid as a welcome development for Explaurum shareholders. We think Ramelius is a competent and conservative operator that will maximise Tampia's value and absorb or reduce the development risks if it gets the opportunity. We have a pre-bid Buy recommendation on RMS. Accordingly we upgrade our EXU recommendation to Buy as an equivalent entry to RMS.

11 Sep 2018

Share Price	\$0.105
Valuation	\$0.15
Price Target (12 month)	\$0.15

Brief Business Description:

WA gold explorer with 695koz in resource at Tampia (90%)

Hartleys Brief Investment Conclusion

Scrip takeover bid by Ramelius ann. Sept 10 means shareholders can get exposure to a larger group.

Chairman & MD

Chris Baker (Non-Executive Chairman)

John Lawton (Managing Director)

Top Shareholders

Misty Grange Pty Ltd	3.9%
West Trade Enterprises Pty Ltd	6.3%

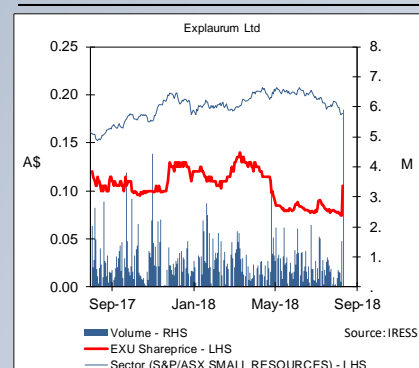
Company Address

Level 16, Waterfront Place 1 Eagle Street
Brisbane Qld, 4000

Issued Capital	481m
- fully diluted	532m
Market Cap	A\$51m
- fully diluted	A\$56m
Cash (30 June 18)	A\$3m
Debt (30 June 18)	A\$0m
EV	A\$47m
EV/Resource oz	A\$69/oz
EV/Reserve oz	A\$97/oz

	Prelim. (A\$m)	FY18e	FY19e	FY20e
Prod (koz Au)		0	0	52
Op Cash Flw (A\$m)		-3	-4	38
Norm NPAT (A\$m)		-3	-5	18
CF/Share (cps)		-0.6	-0.8	7.2
EPS (cps)		-0.6	-0.9	3.4
P/E		0	0	3.1

	Au
Resources (Moz)	0.68
Reserves (Moz)	0.48



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Hartleys has completed capital raisings in the past 12 months for Explaurum Limited ("Explaurum"), for which it has earned fees. Hartleys has provided corporate advice within the past 12 months to Explaurum for which it has earned fees. Hartleys has a beneficial interest in 8 million unlisted options in Explaurum Limited.

SUMMARY MODEL

Explaurum Ltd							Buy							
EXU														
Market Information							Directors							
Share price	\$0.105						Chris Baker (Non-Executive Chairman)	Level 16, Waterfront Place 1 Eagle Street						
Market Capitalisation	\$51m						John Lawton (Managing Director)	Brisbane Qld, 4000						
Net cash (debt)	\$6m						Stephen Stroud (Non-Exec Director)	+61 7 3333 2722						
Issued capital (f.pd)	481m						www.explaurum.com							
Issued Capital (fully diluted)	532m													
EV	\$45m													
Valuation	\$0.15													
12 month price target	\$0.15													
Spot Valuation	\$0.17													
Profit & Loss							Top Shareholders							
Net Revenue	ASM			91	178	159	West Trade Enterprises Pty Ltd	m shares	%					
Forward sales	ASM			-52	-97	-93	Misty Grange Pty Ltd	30.4	6.3					
Total Costs	ASM	-3	-4	38	81	66		18.7	3.9					
EBITDA	ASM	-3	-4	42%	45%	41%								
- margin														
Depreciation/Amort	ASM			-14	-28	-26								
EBIT	ASM	-3	-4	24	53	40								
Net Interest	ASM			-1	-4	-2								
Minority interest	ASM			-2	-5	-4								
Pre-Tax Profit	ASM	-3	-5	18	44	34								
Tax Expense	ASM			-15	-15	-12								
NPAT	ASM	-3	-5	18	29	22								
Abnormal Items	ASM			-5	18	22								
Reported Profit	ASM	-3	-5	18	29	22								
Balance Sheet							Production Summary							
Cash	ASM	5	9	23	73	108	100% basis	Unit	Jun 18	Jun 19	Jun 20	Jun 21	Jun 22	
Other Current Assets	ASM						Open pit ore mined	Mt			0.8	1.5	1.5	
Total Current Assets	ASM	5	9	23	73	108	Open pit ore grade	g/tAu			2.1	2.1	2.1	
Property, Plant & Equip.	ASM	10	86	123	97	72	Mill Throughput	Mt			0.9	1.7	1.6	
Investments/other	ASM	4	4	4	4	4	Head grade	g/t			2.1	2.1	2.1	
Tot Non-Curr. Assets	ASM	14	90	127	101	77	Combined Recovery & Payability	%			92%	92%	92%	
Total Assets	ASM	19	100	150	174	185	Gold	(koz)			52	104	95	
Short Term Borrowings	ASM	20	27	27	7	7	AISC	AS/oz			912	917	958	
Other	ASM	0	0	0	0	0	Mine Life	yr			8.8	3.4	2.7	
Total Curr. Liabilities	ASM	0	20	27	27	7	Costs							
Long Term Borrowings	ASM			10	33	7	Cost per milled tonne	\$A/t	Jun 18	Jun 19	Jun 20	Jun 21	Jun 22	
Other	ASM						EBITDA / tonne milled ore	\$A/t			52	50	53	
Total Non-Curr. Liabil.	ASM			10	33	7	C1: Operating Cash Cost	\$A/oz			45	48	43	
Total Liabilities	ASM	0	30	60	34	7	C2: + depreciation & amortisation	\$A/oz			853	824	865	
Net Assets	ASM	19	69	90	140	178	C3: + Royalty	\$A/oz			1122	1097	1143	
Cashflow							All in sustaining costs (AISC)	\$A/oz			912	917	958	
Operating Cashflow	ASM	-3	-4	38	81	66	Price Assumptions							
Income Tax Paid	ASM						Unit	Jun 18	Jun 19	Jun 20	Jun 21	Jun 22		
Interest & Other	ASM			-1	-4	-2	AUDUSD	0.77	0.75	0.76	0.77	0.79		
Operating Activities	ASM	-3	-5	34	77	64	Gold	US\$/oz	1290	1275	1327	1326	1323	
Property, Plant & Equip.	ASM	-5	-76	-51	-2	-2	Gold	AS/oz	1679	1702	1750	1720	1679	
Exploration	ASM						Hedging							
Asset sales	ASM						Unit	Jun 18	Jun 19	Jun 20				
Investments	ASM						Hedged sales	koz						
Investment Activities	ASM	-5	-76	-51	-2	-2	Sensitivity Analysis							
Borrowings	ASM			30	30	-27	Valuation	0.15	FY18 NPAT					
Equity	ASM	13	55	1	1		Base Case		-10%	+10%	Sens	-10%	+10%	
Financing Activities	ASM	13	55	31	-26	-27	Sens	-10%	0.04	0.27	231%	3.9	-9.9	
Net Cash Change	ASM	5	4	14	50	36	AUDUSD +/- 10%	66%	0.05	0.26	210%	3.3	-9.3	
Shares							Production +/-10%	80%	0.03	0.28	256%	4.7	-10.7	
Ordinary Shares - End	M	472	981	989	1004	1004	Operating Costs +/-10%	57%	0.07	0.24	140%	1.2	-7.2	
Diluted Shares - End	M	504	1004	1004	1004	1004	Unpaid Capital							
Ratio Analysis							Expiry year	No. (M)	\$M	Avg ex.	% ord			
GCFPS	A¢	-0.6	-0.8	7.2	15.2	12.4	30-Jun-19							
CFR	X			1.5	0.7	0.8	30-Jun-20	8	0.8	0.10	2.3%			
EPS	A¢	-0.6	-0.9	3.4	5.4	4.2	30-Jun-21	15	1.0	0.07	4.2%			
PER	X			3.1	1.9	2.5	Total	23	1.8	0.08	6.5%			
DPS	cps						Reserves & Resources Sep '17							
Yield	%						TOTAL RESOURCE 100% project	Mt	q/t Au	Koz	Mkt cap/oz			
Interest Cover	x	-	-	-	-	-	Measured	11.8	1.79	680	883			
ROCE	%	-21%	-4%	19%	52%	52%	Indicated			9.8	1.8	577		
ROE	%	-16%	-7%	20%	31%	19%	Inferred			2.0	1.6	103		
Gearing	%	-	14%	37%	5%	na	INCLUDES TOTAL RESERVE							
							Open pit (probable)	7.2	2.1	484				
							Underground							
							Hartleys model June '17 - 100% project							
							TOTAL INVENTORY	q/t Au	Koz	Mkt cap/oz				
							Open pit	8.0	2.1	532	1127			
								8.0	2.1	532				
							Share Price Valuation (NAV)							
							Riskd Est. A\$/st. A\$/share							
							90% Project after tax 10% DR	33	0.17					
							Exploration	33	0.07					
							Corporate overheads	-27	-0.06					
							Net cash (debt)	3	0.01					
							Tax benefit	12	0.02					
							Option/equity dilution	-30	-0.06					
							Total	74	0.15					

Source: Hartleys Research.

MACE EXPLORATION RESULTS

EXU has announced further drill results from its Mace supergene gold prospect, which is associated with a creek line heading west of the planned Tampia pit.

Results include:

6m at 7.02 g/t Au from 5m

6m at 5.88 g/t Au from 3m

7m at 3.80 g/t Au from 9m

The furthest west drill line intersected 2m at 2.21 g/t and is 400m from the nearest drill line, meaning that the deposit is open to the west. Further extensional drilling to the west is planned to commence next month.

The results are further encouragement of the potential to add high grade/low cost ore feed. The Company plans to complete metallurgical test work with a maiden resource targeted for October 2018.

THE TAMPIA RESOURCE

Explaurum completed its 287 hole (36.3km) RC drilling program at Tampia in August 2017. All holes were conducted within a 960m by 920m area, and drilled to a maximum vertical depth of 200m below surface. Collar spacing was 40m by 40m, with holes angled 600 to grid west.

A new resource estimate based on the drilling was completed 13 September 2017 and revised in May 2018.

*Explaurum
estimated
resources at
Tampia in May
2018 at 673koz*

Fig. 2: Tampia resource estimate, May 2018, 0.3-0.45 g/t lower cut off grade.

	Mt	Grade gAu/t	Cont. gold koz
Indicated	9.8	1.83	577
Inferred	2	1.60	103
Total	11.7	1.79	673

Source: Explaurum.

Multiple shallow (35°) east dipping lodes, 2-20m thick, occur in mafic gneiss, often at the contact with sheets of granite. Continuity of geology and mineralisation down dip and along strike is sufficient for indicated resource classification at 40 by 40m centres. Individual lenses are traceable up to 200m down dip and over 600m along strike (south-west to north-east).

Ore grades at Tampia vary, with individual 1 metre samples assayed at up to 716g/t. There are at least three near surface, high grade zones within the resource, each present on at least two sections. One in the north known as the Gault zone was discovered by BHP in the 1980s. Another was discovered by Explaurum at the south western end of the resource, with intercepts of 7m at 17.6 g/t from 6m down hole and 5m at 15.6 g/t from 16m down hole.

Not all of the gold distribution is explainable at the 40m by 40m sample spacing across the deposit. Explaurum noted that some of the high grade zones occur in rod-like structures oblique to the main orientation determined by the metamorphic fabric. The

short range variability was tested in several areas with close spaced drilling, confirming this interpretation.

Drilling to date has been directed at establishing resources above 150m vertical depth and, partly due to the drop off in drilling density, resources are predominantly above 120m vertical depth. Only about a dozen holes in the 2017 drilling program penetrated beneath 150m vertical depth. The deepest mineralised intercept recorded so far at Tampia (1m at 2.4 g/t in THRC321) was from 177mdh, or about 150m vertical depth. Several near end of hole intercepts (including 7m at 20.5 g/t from 135mdh downhole in THRC157 and 3m at 22.3 g/t from 153mdh in THRC321) remain to be followed up - down dip and along strike. Mineralisation remains open down dip to the south east on most sections.

Deeper conduits for the Tampia mineralisation beneath 150m depth have not been tested by drilling. Gold at Tampia, like WA's Archaean deposits generally, is interpreted to have occurred post metamorphism 2.6 billion years ago.

TAMPIA – FEASIBILITY STUDY RESULTS.

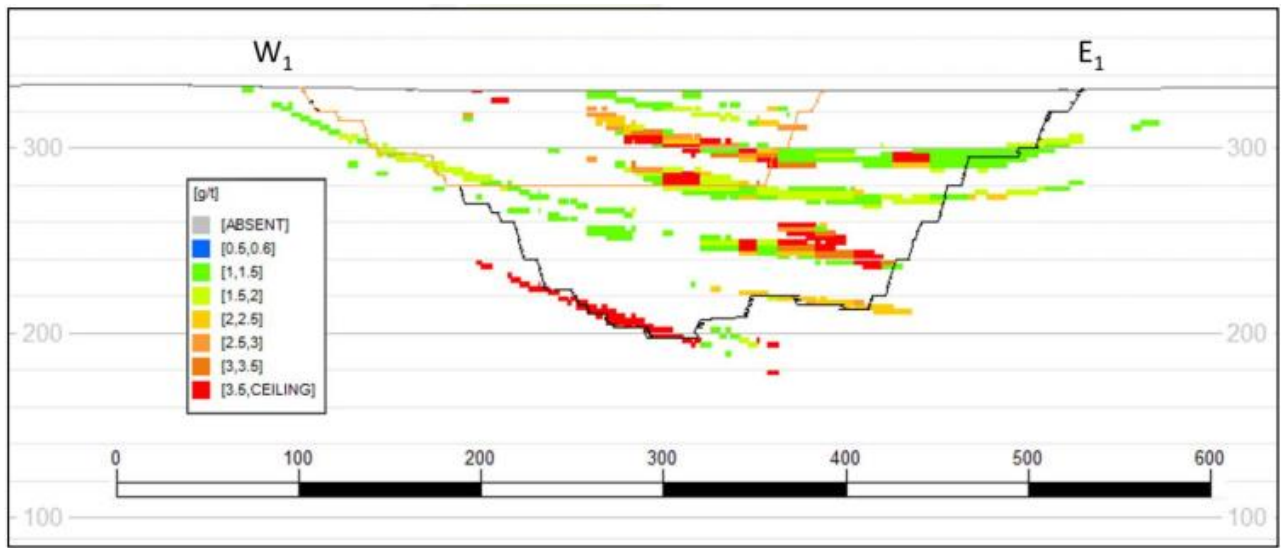
In May 2018 Explaurum completed a feasibility study for Tampia, providing estimated development parameters. The feasibility study indicated the following;

- An initial open pit plan to mine 8.0Mt at 2.07 g/t, with a strip ratio of 7.6:1.
- Pre-development capital cost of \$119M, including a \$11M contingency allowance.
- Ore processing capacity of 1.5Mtpa
- Mining cost including grade control of \$29.4/t ore treated (\$9/bcm, dry hire, owner operated)
- Processing costs of \$22/t.
- Administration cost of \$4Mpa
- 92% metallurgical recovery
- LOM sustaining capex of \$8M

Tampia's proposed development is conventional in most respects. The flow sheet includes whole ore gravity, flotation and cyanidation, producing bullion only. Oxidised material accounts for 0.5Mt (6%) of ore in the proposed mine plan. High grade ore starts at surface. Mine staff will reside in the rural town of Narembeen, 16km from the proposed mine. Subject to supply availability, grid power may be accessed from a substation 40km south of the site. A high proportion of process water may be provided by pit dewatering, with any balance met by local groundwater. The project will be built predominantly on privately owned, cultivated land for which native title has been extinguished.

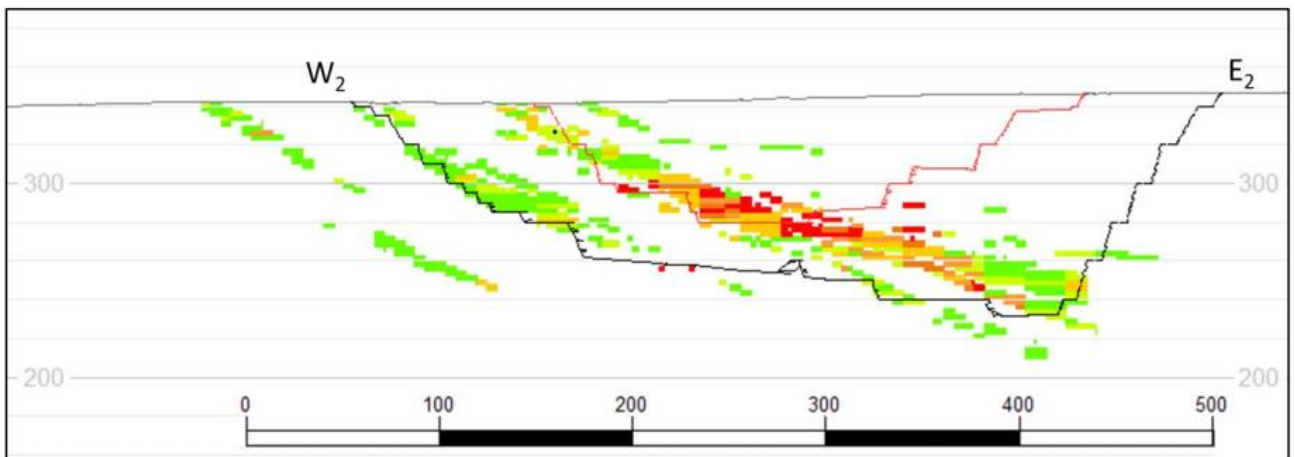
Estimates of reserves, metallurgy and costs are subject to further refinement as part of the Bankable feasibility study, due for completion in November 2018.

Fig. 3: Cross section through southern starter pit. Stage 1 pit outline in orange.



Source: Explaurum

Fig. 4: Cross section through northern starter pit. Stage 1 pit outline in red.



Source: Explaurum

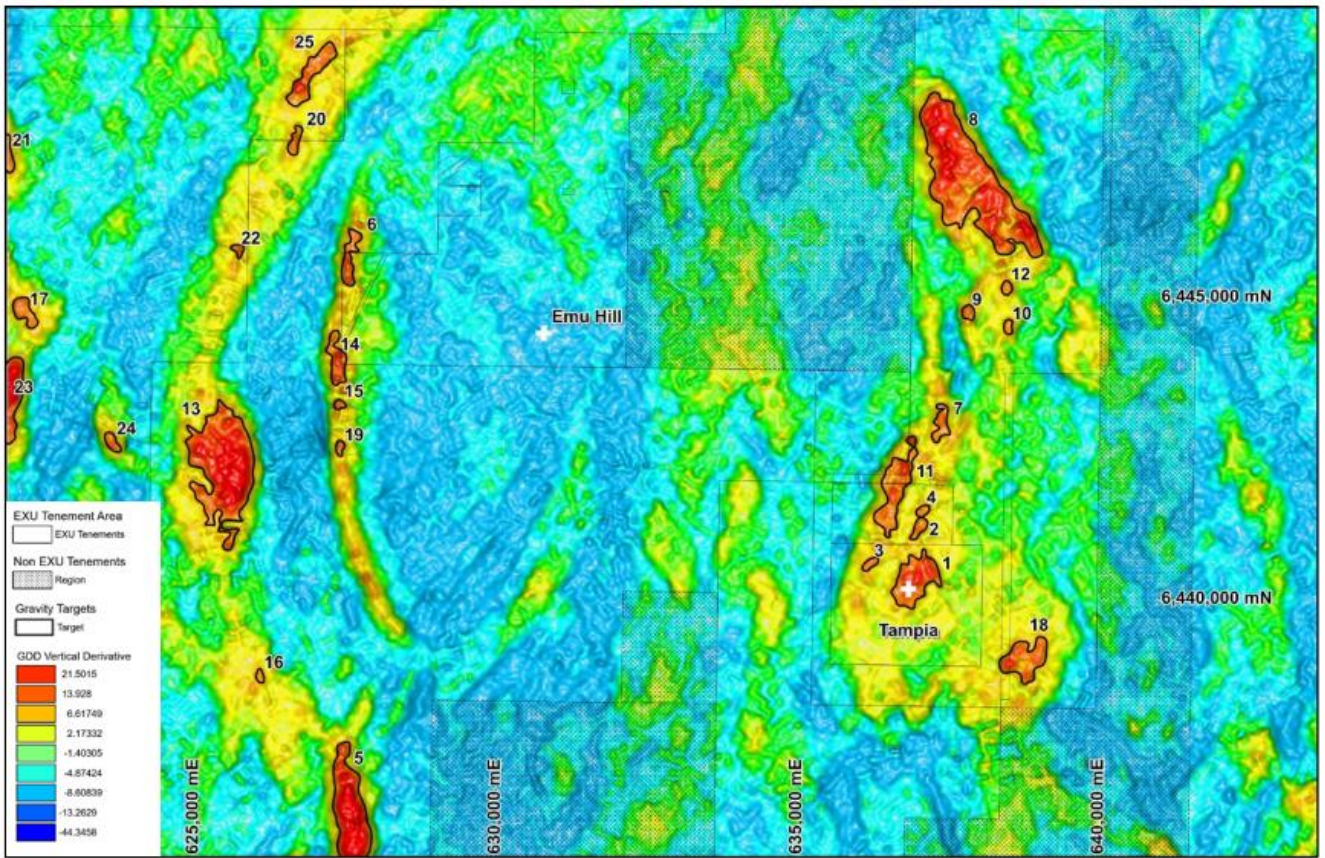
Explaurum ran an airborne gravity survey of the Tampia district in 2017.

EXPLORATION PROSPECTS.

Prior to 2017 exploration at Tampia was mainly by surface geochemistry, with very little understanding of geological control. With the exception of the high grade, outcropping Gault zone, regional geochemical anomalies have been difficult to drill target due to dispersion and farm access restrictions. In 2016 and 2017 EXU’s gravity surveys identified a circular to oblong gravity anomaly coincident with the known Tampia mineralisation, and in March 2017 EXU completed a 400km² airborne gravity survey of the Tampia district, providing a leap in terms of regional targeting capability.

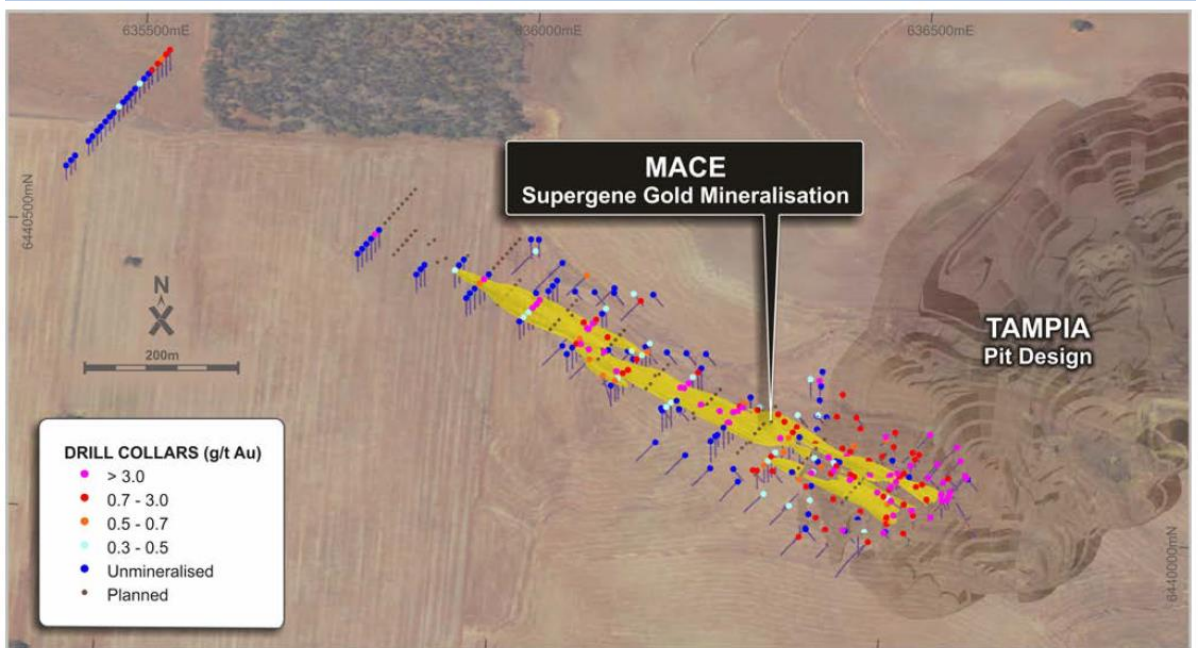
The known Tampia resource correlates with a gravity high (anomaly 1 on Figure 5). A series of separate gravity anomalies are apparent; interpreted as mafic gneiss bodies prospective for gold mineralisation.

Fig. 5: Regional gravity data showing target areas and the Tampia gravity anomaly. Anomaly 8 is top right.



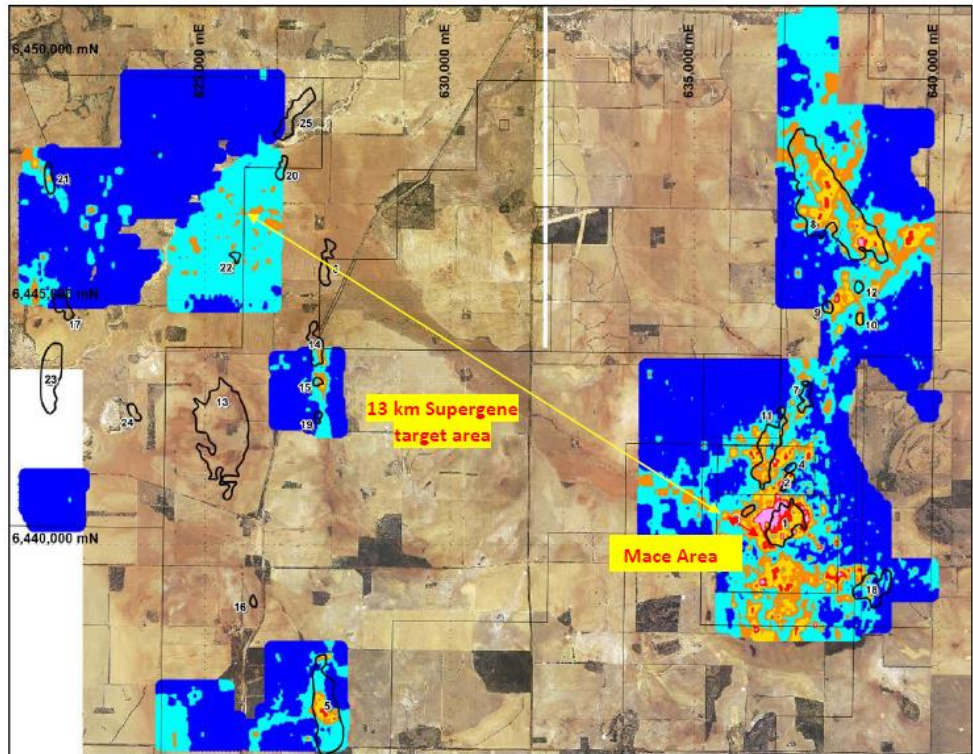
Source: Explaurum

Fig. 6: Mace prospect collar plan September 2018.



Source: Explaurum

Fig. 7: Tampia regional gold in soil and gravity anomaly map. The creek line containing Mace extends 13 km north west from the proposed Tampia pit.



Source: Explaurum

Tampia is on farm land about 15km from the town of Narembeen.

APPROVALS AND COMMUNITY SUPPORT.

In 30 years since Tampia’s discovery a succession of operators have left mixed impressions on the local community. EXU has improved relationships with key land holders and enjoy better access as a result. Although EXU owns the subsurface (below 30m depth) mineral exploitation rights, landowners have veto rights over access to their properties for surface exploration. EXU operates under individually negotiated land access agreements, which confer full access rights and all subsurface minerals exploitation rights.

PEERS AND COMPETITORS

Explaurum’s resource at Tampia (90% EXU) is relatively high grade and near surface compared to other recent and contemplated open pit developments in WA.

Statistics for DCN’s Jupiter pits (in development as part of a larger project), GCY’s Dalgaranga project (in development), CMM’s Karlawinda proposal (feasibility study completed) and Explaurum’s Tampia are tabulated in Figure 5 for comparison purposes.

Fig. 8: WA open pit developments and proposals 2018.

Project	Operator	Resource	Grade		Cont. Au kozs	Pit inventory Mt	Pit grade g/t	Pit cont. gold kozs	Waste:ore :1	Max depth m	Notes
			Mt	g/tAu							
Jupiter	Dacian	DCN	30	1.3	1237	14.8	1.40	666	7.5	220	Reserve, on site processing
Dalgaranga	Gascoyne	GCY	26	1.4	1157	16.2	1.25	651	7.0	260	Reserve, on site processing
Orelia	Echo	EAR	16	2.1	1074	14.1	1.70	771	6.0	250	Reserve, near site processing
Karlawinda	Capricorn	CMM	45	1.0	1375	27.6	1.01	895	4.8	200	Reserve, undeveloped
Tampia	Explaurum	EXU	12	1.8	673	8.1	2.09	544	7.6	140	Reserve+inferred, undeveloped
Lake Roe	Breaker	BRB	12	1.6	624	6.6	1.97	415	na	150	Pit inventory within resource, undeveloped

Sources: Company ASX announcements, Hartleys Research

MANAGEMENT, DIRECTORS AND MAJOR SHARE HOLDERS

Fig. 9: EXU Management exposure, 2017.

Economic exposure of Board and key management		Opts	Perf. rights	Shares	Exposure	Rank
	Position	M	M	M	M	
C Baker	Non exec Chair	2.4	2.4	0.2	5.0	3
J Lawton	MD	9.4	5.9	3.8	19.1	1
S Stroud	NED	0.8	3.2	0.6	4.5	5
P Fredericks	Coy Sec.	4.5		0.3	4.8	4
G Partington	Chief Geo	5.8		0.8	6.6	2

Sources: EXU 2017 Ann. Report, appendices 3Y

Chris Baker, appointed Non-Executive Chairman in September 2015

Mr Baker (BSc, MBA) was Chairman of Auzex Resources Limited from 2005 to 2012. He is currently a member of the Institute of Directors (NZ) and a Fellow of the AUSIMM.

John Lawton, appointed Managing Director in September 2015.

Mr Lawton is a geologist who was a co-founder of Ross Mining NL and founder of Auzex Resources Limited in 2003. He managed Auzex during development of the Bullabulling Gold Project. He is also Chairman of Peninsula Goldfields Pty Ltd.

Stephen Stroud, appointed Non-Executive Director in January 2016.

Mr Stroud is an accountant who is currently a Director, Corporate Finance of CCZ Equities.

Paul Fredericks, appointed CFO in September 2015.

Mr Fredericks was Company Secretary and CFO of Ross Mining NL from 1992 to 2000 and CFO of Geodynamics Limited from 2002 to 2012. He has filled similar roles for Billabong International Limited and Discovery Metals Limited.

Greg Partington, appointed General Manager Operations in September 2015.

Dr Partington is a geologist was general manager of exploration at Ross Mining NL and also founder of Auzex Resources Limited in 2003. He managed operations and development of Auzex during development of the Bullabulling Gold Project.

12 MONTH PRICE TARGET

ASSET VALUATION

Hartleys assumes the operating parameters indicated in EXU's May 2018 feasibility study. We have added 300kt of ore averaging 2 g/t Au (19kozs), with a strip ratio of 4:1, added to the first year of production, accounting for the potential at Mace, based on Hartleys' plots of published data and inventory estimates drawn from statistical analysis of the data.

Hartleys' financial assumptions include the following;

- LT gold US\$1250/oz, AUDUSD 0.78 (A\$1608/oz)
- \$5M expenditure FY2018 on feasibility studies and exploration.
- Finance completion by December 2018, assuming external requirement of \$140M comprising \$80M debt and \$60M new equity raised by issue of 550M shares at 11cps in FY2019.
- 12 month construction period. Commissioning June quarter of 2020.
- 8% after tax, real discount rate.

With these inputs EXU's 90% share of Tampia has an estimated after tax NPV of \$83M (17 cps).

EXU has a range of regional gold prospects within its tenure and a well formulated exploration strategy based on recent gravity survey correlation with known mineralisation, and data from intermittent past prospecting combined with recent surface sampling. The value of regional exploration prospects within EXU's tenure also depends on the presence of a base load resource to justify construction of a treatment plant. Hartleys has allocated a nominal \$33M (7cps) to the exploration value.

Corporate overheads of \$27M (-6cps) are subtracted from the valuation reflecting the present value of corporate management costs over the life of the project.

Equity dilution of \$30M (-6cps) reflects the value attributable to current option holders, plus an assumed equity issue in FY2019 (\$55M raised at 11cps).

The net asset valuation of EXU based on the above inputs is \$74M (15cps). At spot price settings (A\$1678/oz) our NAV estimate is 17cps.

RECOMMENDATION

Hartleys has a Buy recommendation for Explaurum with a 12 month price target of 16cps, based on our NAV. The price target is also equivalent to one quarter of RMS share price target.

VALUATION RISKS

Assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
The RMS takeover offer announced 10 Sept remains valid and acceptable.	Low	Medium	The offer is conditional on no material adverse changes in EXU's affairs, gold price (+A\$1350/oz) and other prescribed occurrences.
92% met recovery is achievable at assumed capital and operating costs	Moderate	Medium	Metallurgical test results indicate 92% met recovery to bullion. 10% of production is associated with löllingite, which reports to flotation concentrate in testing.
EXU will get timely permitting and access	Low	Medium	Community is supportive as a whole. Individual land owner negotiations are required for EXU to access to all prospects within the project.
Gold and currency price forecasts	Moderate	Medium	Tampia project returns are sensitive to the gold price. Corporate capacities to raise equity and repay debt are affected by the gold price.
Returns on exploration will be high	Moderate	Low	Exploration prospects outside the resource area are a significant value contributor.
EXU can obtain capital at reasonable prices	High	Medium	The valuation assumes EXU raises a mix of debt and new equity for future project funding, and that existing share value will be diluted by raisings completed at less than valuation.

Conclusion

The RMS offer changes Explaurum's risk profile by conferring exposure to other assets.

Source: Hartleys Research

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 Buy	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.

Institutional Sales

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