

24 Apr 2020

## STRANDLINE RES. LTD (STA)

### Offtakes for Coburn mean full steam ahead

Strandline Resources Ltd (STA) recently announced maiden offtakes for ~66% of Coburn's forecast (Company estimate) revenue. The remaining offtake is for ~15kt premium zircon and ~24kt HiTi (both of which we assume should be relatively easy). The agreements are with some of the world's leading consumers in their respective industries and provide geographical spread across Europe, America and China.

#### **CHORLIDE ILMENITE (100% under offtake, fixed price) 110ktpa LOM,**

The agreement is with Chemours (USA) and covers 100% of the chloride ilmenite to be produced at Coburn for the first five years. The pricing is fixed (rise and fall based on PPI). The ilmenite sales are expected to generate between 20-24% of Coburn's forecast revenue, based on Company model.

#### **PREMIUM ZIRCON (50-60% under offtake, market prices), 34ktpa LOM**

The Agreement is with Industrie Bitossi s.p.a (Bitossi), one of the world's largest zircon consumers, based primarily in the high-quality European ceramics market. Zircon sales under the agreement are expected to generate ~18% of Coburn's revenue, based on Company model. Price is based on the spot US-dollar market price for premium "ceramic grade" zircon.

#### **ZIRCON CONC. (100% under offtake, market prices), 54ktpa LOM**

The agreement is with Sanxiang Advanced Materials Co., Ltd and Nanjing Rzisources International Trading Co., Ltd operating in partnership. The offtake is for 100% of the zircon concentrate produced at Coburn for the first seven years, accounting for between 22-26% of Coburn's revenue based on Company model. The pricing is based on premium zircon market prices plus credits for the titanium and monazite. This means prices will be a premium to the prices assumed in the DFS, ceteris paribus.

#### **HiTi (none under offtake), 24ktpa LOM**

There is no offtake yet for the HiTi/Rutile. It should be a demanded product, and hence we assume it will be easily placed at the Company's discretion.

### We assume Coburn leapfrogs Fungoni for development

We have removed Fungoni from our development model. We still attribute value in our valuation, but our earnings and financing model now only assume Coburn. We will need to update our model again if Fungoni is developed first.

### Retain Speculative Buy

The offtakes are a significant de-risking event for the development of Coburn. It has been the larger value driver in our model than Fungoni (in Tanzania), and so it is positive to see it progressing well. The fixed price nature of the ilmenite contract is a big positive for debt financing, particularly in current environment. The ability to sell HMC while the MSP is commissioning is also positive for de-risking. The fact that there is still some offtake available for premium zircon and rutile (high value products) is positive for strategic reasons. It also raises the speculative odds of an industry equity injection, keeping the possibility of an outfield positive catalyst alive as the Company progresses through financing. The location of the project in WA's traditional mineral sands province also gives it strategic importance, in our view. We maintain our Speculative Buy recommendation.

Share Price	\$0.12
Preliminary valuation	\$0.23
Price Target (12 month)	\$0.21

#### Brief Business Description:

Mineral sands developer in Australia and Tanzania.

#### Hartleys Brief Investment Conclusion

STA has potential to build substantial mineral sands business. Coburn is a large WA asset and very advanced. The Fungoni development is small zircon rich project in Tanzania.

#### Chairman & MD

Didier Murcia (Non Exec-Chairman)

Luke Graham (MD)

#### Top Shareholders

Tembo	37.6%
C&H Investments	7.3%
Gasmere / Hatch	4.9%

#### Company Address

35 Richardson St  
West Perth, WA 6005

#### Issued Capital

426.8m

- fully diluted 456.2m

Market Cap A\$51.2m

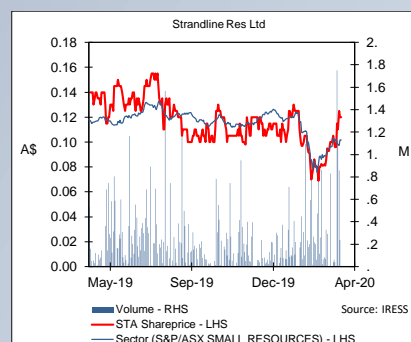
- fully diluted A\$54.7m

Cash (30 Jun 20e) A\$7.0m

Debt (30 Jun 20e) A\$0.0m

EV A\$44.2m

	FY19e	FY20e	FY21e
EBITDA	-1.9	-4.0	-4.0
Op Cash Flw	-2.1	-3.1	-14.6
Norm NPAT	-2.1	-4.3	-20.8
CF/Share (cps)	-0.7	-0.8	-1.3
EPS (cps)	-0.7	-1.1	-1.9
P/E	-18.3	-11.0	-6.3



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Hartleys has assisted in the completion of a capital raising in the past 12 months for Strandline Resources Limited ("Strandline") for which it has earned gross fees. See back page for disclosure

Strandline Res Ltd STA		Share Price \$0.120			
<b>Key Market Information</b>					
Share Price		<b>\$0.120</b>			
Market Capitalisation - ordinary		A\$51m			
Net Debt (cash)		-\$7m			
Market Capitalisation - fully diluted		A\$55m			
EV		A\$45m			
EV inc. assumed new capital		A\$452m			
Issued Capital		426.8m			
Options		29.4			
Issued Capital (fully diluted inc. all options)		456.2m			
Issued Capital (fully diluted inc. all options and new capital)		1833.8m			
Valuation		\$0.23			
12month price target		<b>\$0.21</b>			
<b>P&amp;L</b>	<b>Unit</b>	<b>30 Jun 20</b>	<b>30 Jun 21</b>	<b>30 Jun 22</b>	<b>30 Jun 23</b>
Net Revenue	A\$m	0.0	0.0	30.8	177.8
Total Costs	A\$m	-4.0	-4.0	-18.9	-89.9
EBITDA	A\$m	-4.0	-4.0	11.9	87.9
- margin				39%	49%
Depreciation/Amort	A\$m	-0.4	-6.2	-15.7	-19.8
EBIT	A\$m	-4.4	-10.2	-3.8	68.1
Net Interest	A\$m	0.1	-10.6	-21.0	-9.2
Pre-Tax Profit	A\$m	-4.3	-20.8	-24.8	58.9
Tax Expense	A\$m	0.0	0.0	0.0	0.0
Normalised NPAT	A\$m	-4.3	-20.8	-24.8	58.9
Abnormal Items	A\$m	0.0	0.0	0.0	0.0
Reported Profit	A\$m	-4.3	-20.8	-24.8	58.9
Minority	A\$m	0.0	0.0	0.0	0.0
Profit Attrib	A\$m	-4.3	-20.8	-24.8	58.9
<b>Balance Sheet</b>	<b>Unit</b>	<b>30 Jun 20</b>	<b>30 Jun 21</b>	<b>30 Jun 22</b>	<b>30 Jun 23</b>
Cash	A\$m	7.0	197.0	227.6	248.7
Other Current Assets	A\$m	0.0	0.0	0.4	2.4
Total Current Assets	A\$m	7.0	197.0	228.0	251.1
Property, Plant & Equip.	A\$m	-0.6	166.2	262.5	242.7
Exploration	A\$m	15.5	19.5	23.5	27.5
Investments/other	A\$m	0.2	0.2	0.2	0.2
Tot Non-Curr. Assets	A\$m	15.2	185.9	286.3	270.5
Total Assets	A\$m	22.2	382.9	514.3	521.6
Short Term Borrowings	A\$m	-	-	-	-
Other	A\$m	1.8	1.8	8.1	38.4
Total Curr. Liabilities	A\$m	1.8	1.8	8.1	38.4
Long Term Borrowings	A\$m	-	231.7	231.7	-
Other	A\$m	-	-	-	-
Total Non-Curr. Liabil.	A\$m	-	231.7	231.7	-
Total Liabilities	A\$m	1.8	233.4	239.8	38.4
Net Assets	A\$m	20.4	149.5	274.5	483.2
Net Debt	A\$m	-7.0	34.7	4.1	-248.7
<b>Cashflow</b>	<b>Unit</b>	<b>30 Jun 20</b>	<b>30 Jun 21</b>	<b>30 Jun 22</b>	<b>30 Jun 23</b>
Operating Cashflow	A\$m	-3.1	-4.0	17.8	116.1
Income Tax Paid	A\$m	0.0	0.0	0.0	0.0
Interest & Other	A\$m	0.1	-10.6	-21.0	-9.2
Operating Activities	A\$m	-3.1	-14.6	-3.2	106.9
Property, Plant & Equip.	A\$m	0.0	-173.0	-112.0	0.0
Exploration and Devel.	A\$m	-6.7	-4.0	-4.0	-4.0
Other	A\$m	0.0	0.0	0.0	0.0
Investment Activities	A\$m	-6.7	-177.0	-116.0	-4.0
Borrowings	A\$m	0.0	231.7	0.0	-231.7
Equity or "tbc capital"	A\$m	12.5	149.8	149.8	149.8
Dividends Paid	A\$m	0.0	0.0	0.0	0.0
Financing Activities	A\$m	12.5	381.5	149.8	-81.8
Net Cashflow	A\$m	2.7	189.9	30.6	21.1
<b>Shares</b>	<b>Unit</b>	<b>30 Jun 20</b>	<b>30 Jun 21</b>	<b>30 Jun 22</b>	<b>30 Jun 23</b>
Ordinary Shares - End	m	426.9	1768.0	1777.1	1784.6
Ordinary Shares - W'ted	m	396.4	1097.5	1772.5	1780.8
Diluted Shares - W'ted	m	396.5	1092.7	1758.6	1758.6
<b>Ratio Analysis</b>	<b>Unit</b>	<b>30 Jun 20</b>	<b>30 Jun 21</b>	<b>30 Jun 22</b>	<b>30 Jun 23</b>
Cashflow Per Share	A\$ cps	-0.8	-1.3	-0.2	6.0
Cashflow Multiple	x	-15.5	-9.0	-65.9	2.0
EV (+ cap.) / EBIT	x		-44.1x	-119.5x	6.6x
EV (+ cap.) / EBITDA	x		-112.9x	38.0x	5.1x
Earnings Per Share	A\$ cps	-1.1	-1.9	-1.4	3.3
Price to Earnings Ratio	x	-11.0	-6.3	-8.6	3.6
Dividends Per Share	AUD	-	-	-	-
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%
Net Debt / Net Debt + Equity	%	-52%	19%	1%	-106%
Interest Cover	X	77.6	na	na	7.4
Return on Equity	%	na	na	na	12%
Analyst: Trent Barnett +61 8 9268 3052 "tbc capital" could be equity or debt. Our valuation is risk-adjusted for how this may be obtained. Sources: IRESS, Company Information, Hartleys Research					

24 April 2020 Speculative Buy	
<b>Directors</b>	<b>Company Information</b>
Didier Murcia (Non Exec-Chairman)	35 Richardson St
Luke Graham (MD)	West Perth, WA 6005
Peter Watson (Exec Director)	+61 8 9226 3130
Earnest (Tom) Eadie (Non- Exec Director)	
John Hodder (Non- Exec Director, Tembo nominee)	www.strandline.com.au
<b>Top Shareholders</b>	<b>m shares %</b>
Tembo	160.4 37.6%
C&H Investments	31.2 7.3%
Gasmere / Hatch	21.0 4.9%
<b>Reserves &amp; Resources</b>	<b>Mt Grade Ilmenite Zircon Rutile/Hiti</b>
<b>Total Resource</b>	<b>1896 1.5% 51.2% 20.5% 11.6%</b>
Fungoni Tanzania	22 2.8% 41% 17% 6%
Tajiri Tanzania	268 3.3% 71% 6% 10%
Coburn WA	1606 1.20%
<b>Total Reserve</b>	<b>535 1.2% 47.8% 22.9% 11.9%</b>
Fungoni Tanzania	12 3.9%
Tajiri Tanzania	0
Coburn WA	523 1.1% 48% 23% 12%
<b>Coburn Production Summary</b>	<b>Unit Jun 20 Jun 21 Jun 22 Jun 23 Jun 24</b>
Mining Inventory	Mt 881.3 881.3 877.5 854.1 830.7
	% 1.1% 1.1% 1.1% 1.1% 1.1%
Mill Throughput	Mt 0.0 3.8 23.4 23.4
HM grade	% - 1.1% 1.1% 1.1%
Zr production	kt 0.0 5.2 32.4 32.4
Rutile / Hi-Ti production	kt 0.0 3.1 19.6 19.6
Chlor. Ilmenite production	kt 0.0 16.8 105.0 105.0
Ilmenite	% rev. 18.3% 18.4% 18.6%
Zircon	% rev. 34.9% 34.6% 34.3%
Rutile / Hi-Ti production	% rev. 15.2% 15.6% 16.1%
Monazite	% rev. 31.6% 31.3% 31.0%
<b>Fungoni Production Summary</b>	<b>Unit Yr1 Yr2 Yr3 Yr4</b>
Mining Inventory	Mt 15.4 14.5 12.5 10.5 8.5
	% 3.7% 3.7% 3.6% 3.3% 2.9%
Mill Throughput	Mt 0.0 0.9 2.0 2.0 2.0
HM grade	% 0.0% 3.9% 5.3% 5.5% 4.2%
Zr production	kt 0.0 5.8 15.6 18.5 16.6
Rutile / Hi-Ti production	kt 0.0 1.3 3.5 4.2 3.7
Chlor. Ilmenite production	kt 0.0 13.0 35.4 41.8 37.5
Ilmenite	% rev. 20.9% 20.7% 20.8% 20.9%
Zircon	% rev. 61.6% 61.6% 60.8% 60.0%
Rutile / Hi-Ti production	% rev. 10.3% 10.5% 10.9% 11.1%
Monazite	% rev. 7.2% 7.2% 7.6% 8.0%
<b>Price Assumptions</b>	<b>Unit Jun 20 Jun 21 Jun 22 Jun 23 Jun 24</b>
AUDUSD	USD/AUD 0.67 0.68 0.71 0.74 0.74
Chloride Ilmenite	US\$/t fob Tanz 235 227 220 211 201
Zircon	US\$/t fob Tanz 1469 1470 1486 1395 1303
Rutile	US\$/t fob Tanz 1061 1121 1178 1160 1125
Leucoxene	US\$/t fob Tanz 790 835 877 864 838
Monazite	US\$/t fob Tanz 1975 1975 1975 1975 1975
<b>Sensitivity Analysis</b>	<b>Valuation FY23 NPAT</b>
<b>Base Case</b>	<b>0.23 58.9</b>
Spot Prices	0.33 (44.2%) 71.2 (21.0%)
Spot USD/AUD 0.64, Sulphate Ilmenite cfr \$190/t, Chloride Ilmenite cfr \$225/t, Zircon \$1300/t, Rutile \$1150/t	
AUDUSD +/-10%	0.17 / 0.31 (-24.9% / 34.7%) 43.1 / 78.2 (-26.8% / 32.8%)
Ilmenite +/-10%	0.25 / 0.22 (6.7% / -6.8%) 58.9 / 58.9 (0.0% / 0.0%)
chloride ilmenite +/-10%	0.24 / 0.22 (4.4% / -4.3%) 62.6 / 55.2 (6.3% / -6.3%)
Zircon +/-10%	0.27 / 0.20 (16.8% / -15.6%) 70.3 / 47.5 (19.4% / -19.4%)
Rutile +/-10%	0.25 / 0.21 (7.9% / -8.1%) 60.7 / 57.0 (3.2% / -3.2%)
Leucoxene +/-10%	0.23 / 0.23 (1.1% / -1.1%) 59.9 / 57.9 (1.7% / -1.7%)
Operating Costs +/-10%	0.19 / 0.27 (-17.6% / 17.7%) 50.8 / 66.9 (-13.7% / 13.7%)
Production +/-10%	0.32 / 0.16 (35.7% / -29.3%) 76.3 / 41.4 (29.6% / -29.6%)
<b>Unpaid Capital</b>	
<b>Year Expires</b>	<b>No. (m) \$m % ord</b>
30-Jun-20	0.0 0.0 0%
30-Jun-21	9.5 0.0 2%
30-Jun-22	9.0 0.6 2%
30-Jun-23	7.4 0.8 2%
30-Jun-24	3.5 0.9 1%
30-Jun-25	0.0 0.0 0%
<b>TOTAL</b>	<b>29.4 2.3 7%</b>
<b>Valuation</b>	<b>\$m /shr</b>
Fungoni	59 0.03
100% Coburn (pre-tax NAV at disc. rate of 12%)	343 0.19
Tanga Sth	147 0.08
Other Assets/Exploration	5 0.00
Forwards	0 0.00
Corporate Overheads	-42 -0.02
Net Cash (Debt)	4 0.00
Tax (NPV future liability)	-92 -0.05
Options & Other Equity	2 0.00
<b>Total</b>	<b>426 0.23</b>

**Fig. 1: Assumptions and risks for valuation**

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Coburn is developed	High	High	We assume Coburn is developed in our valuation
Discount to Fungoni development valuation	High	High	In our valuation, we assume Fungoni is attributed a value less than our development valuation
Equity dilution	Low	High	We assume substantial new shares to develop Coburn.
79% project ownership in Tanzania	Low	upside	We assume STA would need to fund 95% of the capital (free carries Govt 16% interest but not the local partners interest), but the capital is repaid (including equity) before the Govt earns dividends. It is possible the yet to be determined 5% local partner cannot contribute and hence there is upside risk to our assumption for STA economic interest.
Commodity prices	Moderate	High	We assume improving AUD rutile prices and ilmenite prices but weaker AUD zircon prices
AUD appreciates	High	Upside / Downside	Using current FX Coburn is substantially more viable. We assume appreciating AUD. Further depreciation though would improve our STA valuation
Value for Tajiri	Moderate	High	We have a speculative unfunded model for Tajiri and use NPV14 given the speculative assumptions.
RIO options not exercised	Moderate	Upside	We don't assume the RIO options are exercised. This is purely to simplify our valuation. Exercise would increase STA cash balance.
Exploration success	Moderate	High	We attribute some value to exploration potential beyond the assumed mine life extension.
<i>Conclusion</i>	<i>We believe our STA assumptions are realistic but given the risks and assumptions we rate it as a speculative.</i>		

Source: Hartleys Research

**Fig. 2: STA Coburn financial economics**

	DFS - Final Products Case	DFS – HMC Case
Mine Life	22.5yrs	22.5yrs
Ore Tonnes Mined	523Mt	523Mt
Ore Throughput	23.4Mtpa	23.4Mtpa
Capex	A\$257M	A\$207M
LOM Revenue	A\$3.91B	A\$3.42B
LOM Opex (C1)	A\$1.78B	A\$1.62B
LOM AISC	A\$1.97B	A\$1.79B
Avg. C1 Cost per Product Tonne	A\$346/t	A\$316/t
Avg. AISC per Product Tonne ("A")	A\$397/t	A\$361/t
Avg. Basket Price ("B")	A\$760/t	A\$665/t
Avg. Cash Margin (B-A)	A\$363/t	A\$304/t
LOM EBITDA	A\$1.93B	A\$1.62B
Avg. EBITDA	A\$86M	A\$69M
NPV <sup>8</sup> (pre-tax, real, no debt)	A\$551M	A\$481M
IRR (pre-tax, real, no debt)	32.3%	36.4%

Source: STA

**Fig. 3: Product specifications (January 2020)****Table 3** Coburn Project Final Product Specification

Analyses	Units	Ilmenite	Rutile (HiTi)	Premium Zircon	Zircon Concentrate
TiO <sub>2</sub>	%	62.41	93.25	0.15	7.11
Fe <sub>2</sub> O <sub>3</sub> (XRF)	%	29.54	2.14	0.09	4.52
Al <sub>2</sub> O <sub>3</sub>	%	1.1	0.57	0.31	24.81
SiO <sub>2</sub>	%	3.18	1.74	32.8	32.27
Cr <sub>2</sub> O <sub>3</sub>	%	0.14	0.16	<0.002	0.05
ZrO <sub>2</sub> + HfO <sub>2</sub>	%	0.06	0.31	66.4	28.76
CaO	%	0.07	0.05	0.01	0.08
MgO	%	0.23	0.05	0.01	0.88
MnO	%	0.79	0.01	0.01	0.07
CeO <sub>2</sub>	%	0.01	0.01	0.02	0.13
Th	ppm	135	50	146	349
U	ppm	17	25	202	137
D50	(µm)	148	121	125	155

Source: STA



*Fig. 4: Access road to be upgraded, but straight with modest rises*



Source: Hartleys site visit, Jun 2019

*Fig. 5: Non-descript landscape*



Source: Hartleys site visit, Jun 2019

*Fig. 6: Low head grade but beneficiates well at front end*



Source: Hartleys site visit, Jun 2019

*Fig. 7: STA owns the pastoral lease where the first 20 years of ore reserves reside.*



Source: Hartleys site visit, Jun 2019

## PRICE TARGET

Our price target is 21 cps (previously 24cps).

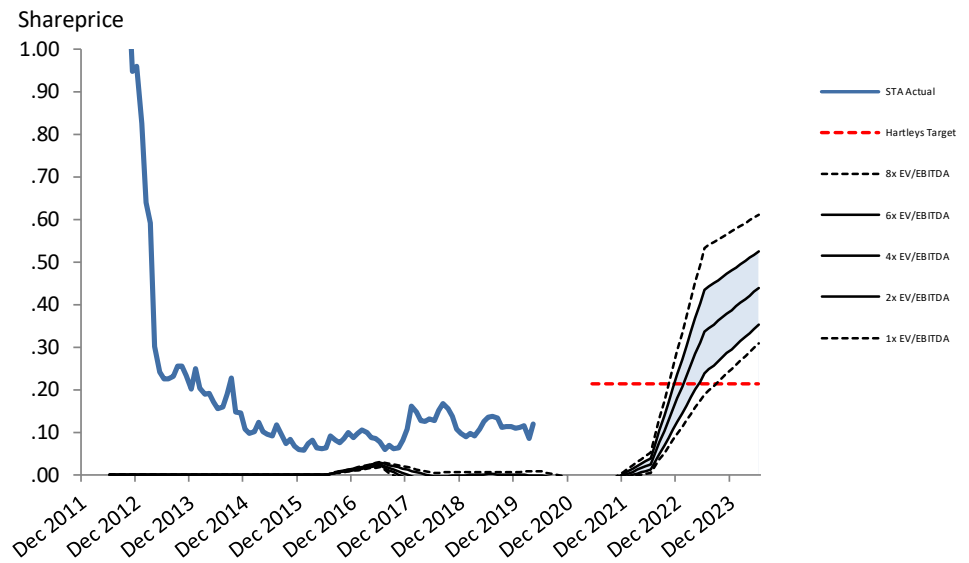
Price Target Methodology	Weighting	Spot	12 mth out
NPV <sub>12</sub> consensus prices	30%	\$0.23	\$0.25
NPV <sub>12</sub> at spot commodity and fx prices	20%	\$0.33	\$0.36
NPV <sub>8</sub> consensus prices	1%	\$0.50	\$0.54
NPV <sub>8</sub> at spot commodity and fx prices	1%	\$0.65	\$0.70
NPV <sub>12</sub> (Fungoni development only, exploration value other assets) base commod.	35%	\$0.11	\$0.12
NPV <sub>12</sub> , minimal dilution, divest Coburn for 50% of NPV (implied STA mcap \$136m)	3%	\$0.27	\$0.31
Net cash backing	10%	\$0.02	\$0.02
<b>Risk weighted composite</b>		<b>\$0.20</b>	
<b>12 Months Price Target</b>		<b>\$0.21</b>	
Shareprice - Last		\$0.120	
<b>12 mth total return</b>		<b>78%</b>	

## RISKS

The key risks for STA (like most mine companies in development) is obtaining the necessary funding to complete the project. Other risks are earnings disappointments given the industry is volatile and earnings can disappoint due to cost overruns, project delays, cost inflation, environmental regulations, plant and mine design mistakes or lower production. Although some earnings disappointments can be short term and are only a timing issue, other disappointments can be materially value destructive and can sometimes overhang stocks for a long period of time (for example metallurgy problems). 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. Sovereign risk is also reasonably high in Africa.

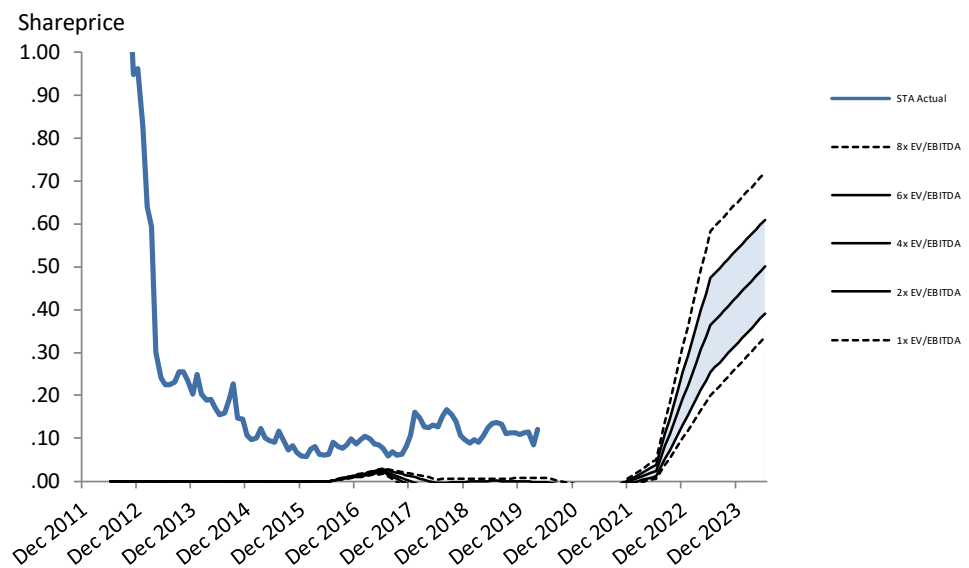
## EV/EBITDA BANDS

**Fig. 2: EV/EBITDA Base case**



Source: Hartleys Estimates

**Fig. 3: EV/EBITDA spot case**



Source: Hartleys Estimates



# HARTLEYS CORPORATE DIRECTORY

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Ben Crossing	Director	+61 8 9268 3047
Ben Wale	Director	+61 8 9268 3055
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Rhys Simpson	Associate Director	+61 8 9268 2851
Michael Brown	Executive	+61 8 9268 2822

## Registered Office

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Note: personal email addresses of company employees are structured in the following manner: *firstname.lastname@hartleys.com.au*

## 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

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Digby Gilmour	+61 8 9268 2814
Kristi Bryson	+61 8 9268 2628
Veronika Tkacova	+61 8 9268 2836

## Wealth Management

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