

# Hot Chili Limited

## Cortadera scale expands with standalone potential

HCH is a Chilean focused Cu-Au exploration and development company which has a suite of projects located 600km north of Santiago within 60km of the coast, at low altitudes. In February 2019 the Company signed an option agreement to acquire a 100% interest in the Cortadera Cu-Au Project adjacent to its other Cu-Au projects in Chile.

The private vendors of the Cortadera project made the discovery in 2011 and subsequently drilled over 23,000m of diamond core. The project has provided significant upside beyond the Company's initial expectations, with HCH drilling returning continuous downhole mineralisation over 1,000m from surface at the main porphyry intrusive, Cuerpo 3. Significant intercepts include: 750m at 0.6% Cu, 0.2g/t Au (incl. 188m at 0.9% Cu, 0.4g/t Au), 848m at 0.4% Cu, 0.2g/t Au (incl. 184m at 0.7% Cu, 0.3g/t Au) and 864m at 0.4% Cu, 0.1g/t Au (incl. 348m at 0.6% Cu, 0.2g/t Au). These intervals highlight the standalone potential of Cortadera as the indications are for a large porphyry copper deposit with grades consistent with other porphyry's in the region.

After completing the second phase of deep diamond drilling at Cuerpo 3, HCH are looking to test the northern extension of the deposit with a round of RC drilling. Recent surface mapping has indicated an extension of up to 600m north, which if successful will significantly add to the overall size of the deposit. The Cortadera North prospect will also be drill tested in the new year targeting an IP chargeability anomaly of similar size to the Cuerpo 3 anomaly.

The Company recently raised \$12.1M to fund ongoing infill and extensional drilling of Cuerpo 3, to complete the exploration drill testing of Cortadera North, and for the final stage 1 payment of US\$3m (A\$4.5m) as part of the acquisition consideration.

## Veritas Comment and Recommendation

We note that the natural owner of a large porphyry copper development is a major company however we fully support HCH's intention to accelerate drilling to add value for shareholders in the short to medium term. Drilling to date has continued to increase the overall size of the project towards a tier 1 target of 5mt Cu metal insitu.

We initiate coverage with a Speculative BUY rating and place a short term price target of 7.5 cps (undiluted) based on our insitu Cu metal assumption and peer comparison analysis. We see our estimate for the current defined size of the deposit the basis to our valuation, as well as highlighting that there is no 'discovery' or market expectation built into the HCH share price. Our price target is supported from ongoing drilling returning broad Cu-Au intervals prior to potential upside from extensional drilling at Cuerpo 3 North and Cortadera North.

**HCH.ASX**
**Spec. BUY**

21 November 2019

Share Price	\$0.035
12 mth Price range high	\$0.052
12 mth Price range low	\$0.009
Price target - short term	\$0.075
GICS Sector	Materials
Market capitalisation*	\$58.9m
Shares on Issue*	1682
Cash on hand	\$6.4m
Enterprise value^	\$61.8m
Previous rating	Initiation
* undiluted for 96.7m out of the money options, ^ includes \$9.3m in unsecured con notes	

### Directors & Management

Non-Exec Chairman	Murray Black
Managing Director	Christian Easterday
Non-Exec Director	Allan Trench
Non-Exec Director	Michael Anderson
Non-Exec Director	Roberto Adriasola
Non-Exec Director	Randall Nickson

### Major Shareholders

KAS & Blue Spec Drilling PL	15.0%
Taurus Funds	13.2%

### HCH Vs Small Resources (XSR)



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## Company Overview

**Cortadera was recognised as a stand-alone project soon after diamond drilling commenced on Cuerpo 3**

HCH listed in May 2010 with a focus on the Productora Project targeting Cu-Au and Uranium. After completing a pre-feasibility study on the Productora deposits in 2016, which although positive, the project lacked the mining inventory required to reach the economies of scale necessary for the development of a moderate grade Cu-Au project. Fast forward to February 2019 when HCH announced an option to acquire a 100% interest in the Cortadera Cu-Au project from private hands. The Cortadera project quickly became a standalone scenario with broad downhole Cu-Au intervals reported by the Company with a higher grade core corresponding to an increase in vein density in the main Cuerpo 3 deposit.

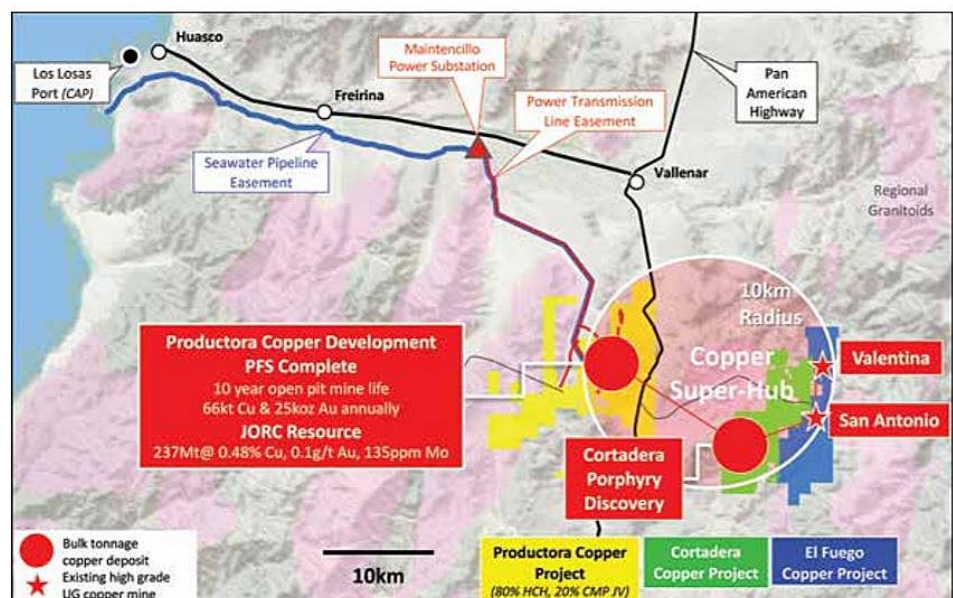
**Cortadera = low altitude, close to the coast**

The Company is now focused on drilling out the existing deposits and drill testing prospective targets to scope out the potential tonnage to support a standalone development at Cortadera. An added advantage is the Company's projects are located within 60km from the coast at less than 900m above sea level with infrastructure approvals in place for port, power and water as part of the Productora study (Figure 1).

**Figure 1: Location plan of Chilean Copper Projects and infrastructure approvals**

**Infrastructure approvals are already in place to Productora**

**Cortadera is a further 14km from Productora**



Source: Hot Chili Limited

## Cortadera Cu-Au Project (HCH acquiring 100%)

**The private vendors drilled 23,231m since discovery in 2011**

In February 2019 HCH announced the signing of a binding MOU to acquire a 100% equity interest in the Cortadera Cu-Au Project located 50km from the coast near La Sarena, Chile. The Cortadera Project is a large, significant cluster of porphyry deposits which were held by private owners who had spent US\$15m since discovering the deposits in 2011, drilling over 23,000m of HQ drill core. HCH patiently negotiated, over a period of 2 years, an agreement with SCM Carola to acquire the Project (Cuerpo 2 and 3 deposits) for a total consideration of US\$30m (A\$45m) in three tiered payments over a 30 month period. HCH has paid the initial US\$5m (A\$7.4m) and is due to pay US\$10m (A\$14.7m) in July 2020 and US\$15m (A\$22.1m) in July 2021. The Company also announced the acquisition of the Purisima Mining Right (Cuerpo 1 deposit) held by a separate private group for a total consideration of

We estimate at an acquisition cost of US\$25/t Cu or US\$0.01/lb Cu

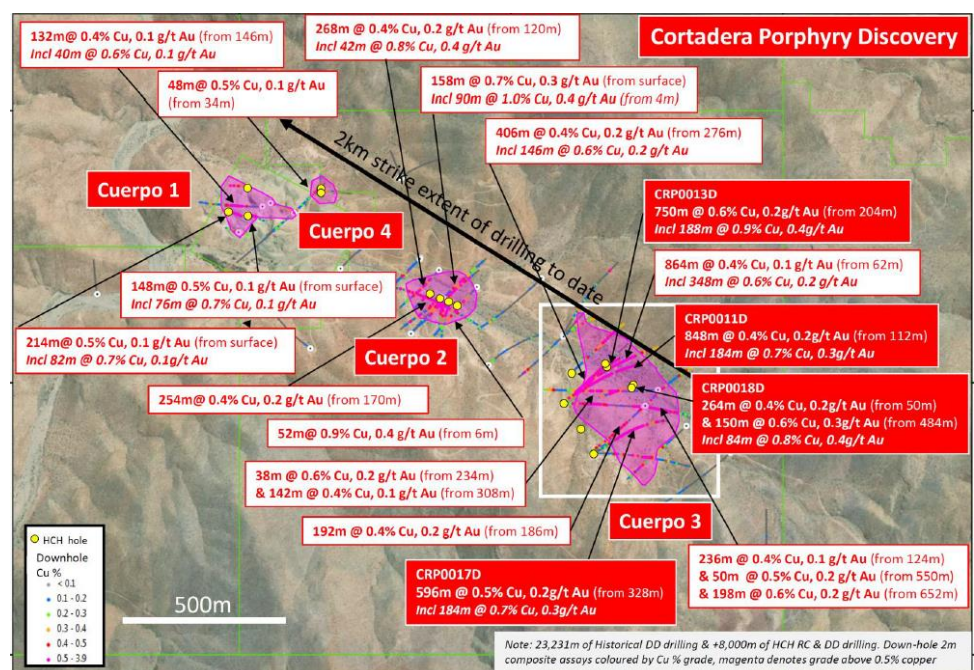
Cuerpo 3 is the largest of the 4 known porphyry's

HCH has drilled over 9,000m since February 2019 and has significantly upgraded Cuerpo 3

US\$1.5m (A\$2.2m) in 3 tiered payments over a 36 month period. We estimate with a total consideration of US\$31.5m an acquisition cost of approximately US\$25/t Cu metal insitu or US\$0.01/lb, assuming an initial resource inventory of approximately 250Mt at 0.5% Cu (VSL estimate) upon signing in February 2019.

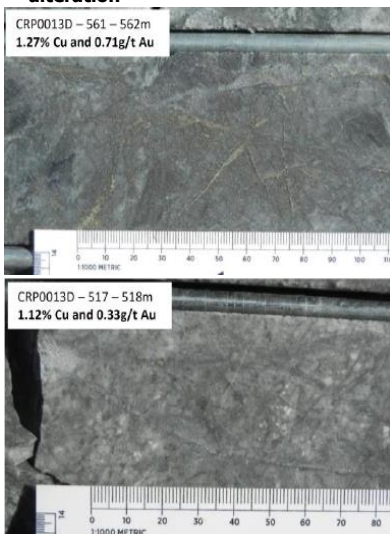
The initial strategy by the Company was to incorporate Cortadera into the Productora mining reserve to reach a critical mass to support a central processing facility with satellite ore trucked from deposits located at Cortadera and El Fuego. The Company has recognised that the Cortadera cluster of tonalite porphyry deposits are substantial and therefore likely to support a standalone development, especially the Cuerpo 3 deposit (Figure 2).

Figure 2: Plan of Cortadera Project drilling significant intercepts



Source: Hot Chili Limited

Figure 3: Cu-Au veining + chl-ser alteration



Source: Hot Chili Limited

## Geology

The Cu-Au-Mo mineralisation at Cortadera is associated with multiple porphyry intrusions. These porphyries have intruded into the early to mid Cretaceous Totorralillo and Nantoco Formations (variously stratified chemical sediments, volcanics, bioclastics, volcanic breccias, and andesitic volcanic units) along an apparent NW structure with a strong north-south overprint.

The Cortadera tonalite porphyry cluster is categorised as a Type II Cu-Au porphyry deposit with large tonnage potential. The porphyries exhibit typical Cu-Au porphyry veining networks and associated alteration styles. The mineralisation includes predominantly pyrite-chalcopyrite±magnetite in sulphide ore zones within an alteration assemblage of chlorite-sericite. As typical in porphyry deposits, Cu and Au are strongly related, and higher-grade Cu and Mo are associated with high vein density (Figure 3).

Local oxide mineralisation encountered in drilling and observed at surface suggests supergene mineralisation, with a chalcocite blanket intercepted in numerous drill holes of up to 30m in thickness at 1.0% Cu and 0.5g/t Au.

## Cuerpo 3 deposit

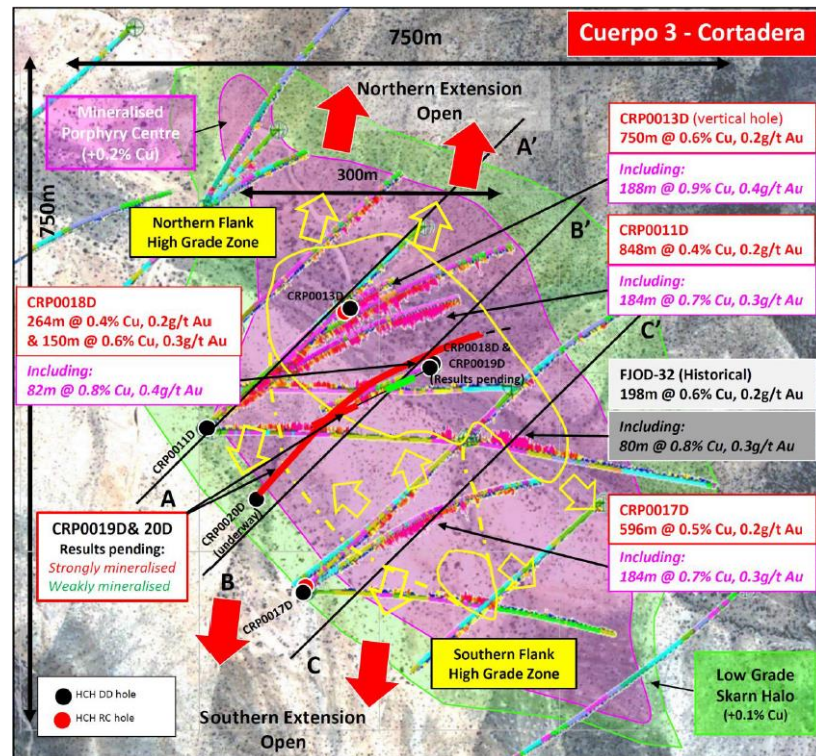
The deposit is mineralised for over 1,000m from surface

The deposit is open in most directions

A high grade zone corresponds with increased vein density

The Cuerpo 3 deposit is open in most directions (Figure 4) with current dimensions of 600m in strike, 250m in width and open beyond 1000m below surface. Drilling by HCH at Cuerpo 3 has returned some of the most significant results from the Project to date and rate as some of the world's most significant Cu-Au porphyry drill results.

**Figure 4: Plan of Cuerpo 3 showing drill trace, intercepts and high grade zone**



Source: Hot Chili Limited

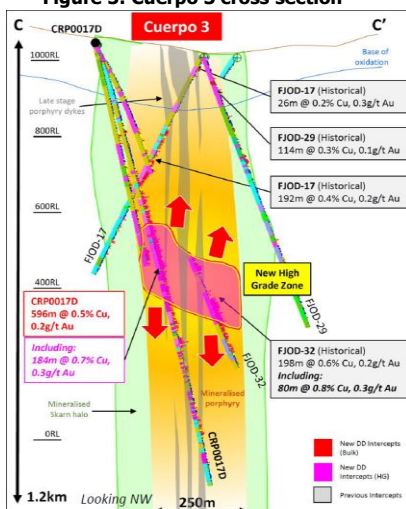
Cuerpo 3 significant intercepts include:

- 750m grading 0.6% Cu and 0.2g/t Au from 204m down-hole depth, including 188m grading 0.9% Cu and 0.4g/t Au;
- 848m grading 0.4% Cu and 0.2g/t Au from 112m down-hole depth, including 184m grading 0.7% Cu and 0.3g/t Au;
- 864m grading 0.4% Cu and 0.1g/t Au from 62m down-hole depth, including 348m grading 0.6% Cu and 0.2g/t Au; and
- 596m grading 0.5% Cu and 0.2g/t Au from 328m down-hole depth, including 184m grading 0.7% Cu and 0.3g/t Au.

In May 2019 HCH delineated a high grade zone with average grades up to 1.0% Cu and 0.5g/t Au over downhole widths up to 200m (Figure 5).

The deposit is also open to the north by up to 600m as shown from recent surface mapping, as well as potentially to the south. To the north a veneer of overlying sediments exhibit proximal skarn assemblages and north – south porphyry dykes presenting A and B Cu

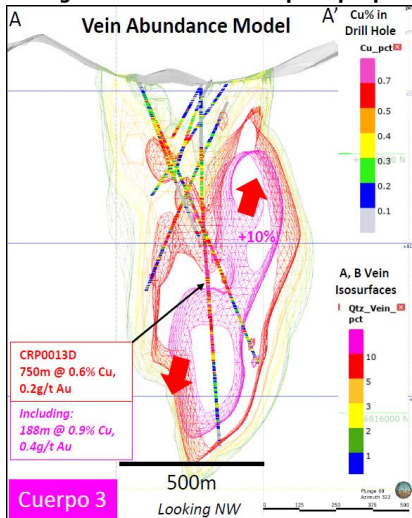
**Figure 5: Cuerpo 3 cross section**



Source: Hot Chili Limited

## EQUITY RESEARCH

**Figure 6: Vein abundance open up dip**



Source: Hot Chili Limited

porphyry veining coincident with an IP chargeability anomaly. The modelled abundance of A + B veining as shown in Figure 6 indicates the Cuerpo 3 deposit is open up dip from current drilling, further adding to prospectivity (Figure 6).

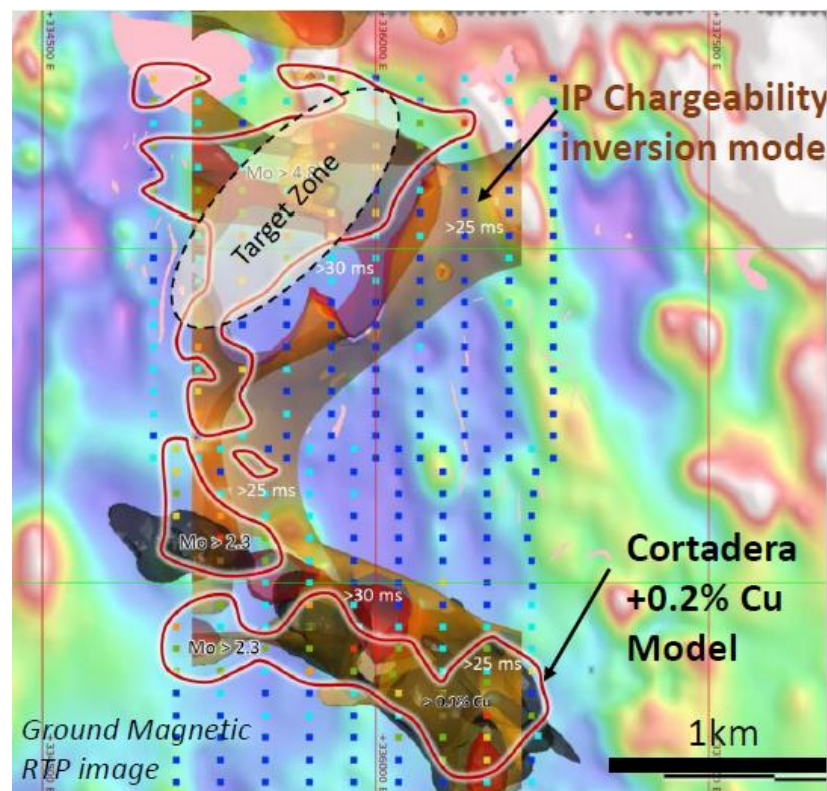
HCH are planning to commence shallow (up to 350m) RC drilling along strike to the north of the deposit prior to the end of 2019 with a second drill rig. In our view, confirmation of strike to the north will augur well for a potential doubling in the size of Cuerpo 3.

### Cortadera North

The Cortadera North Prospect, which is yet to be drill tested, is located 2km north of the Cortadera porphyry cluster and exhibits a strong geochemical anomaly over the prospect, coincident with geophysics. Cortadera North is defined by a ground magnetic anomaly not dissimilar to anomalies over the four known intrusive bodies. The IP chargeability anomaly is over 1km long and is as large as the IP anomaly over Cuerpo 3 (Figure 7).

Subject to clearing and access approval we anticipate drilling to commence at Cortadera North early in the new year following completion of Cuerpo 3 North drilling.

**Figure 7: Cortadera Project Induced Polarisation anomalies**



Source: Hot Chili Limited

The Cortadera North target zone is equivalent to Cuerpo 3

Scout drilling with 4 holes is to commence in early 2020

## Scale potential

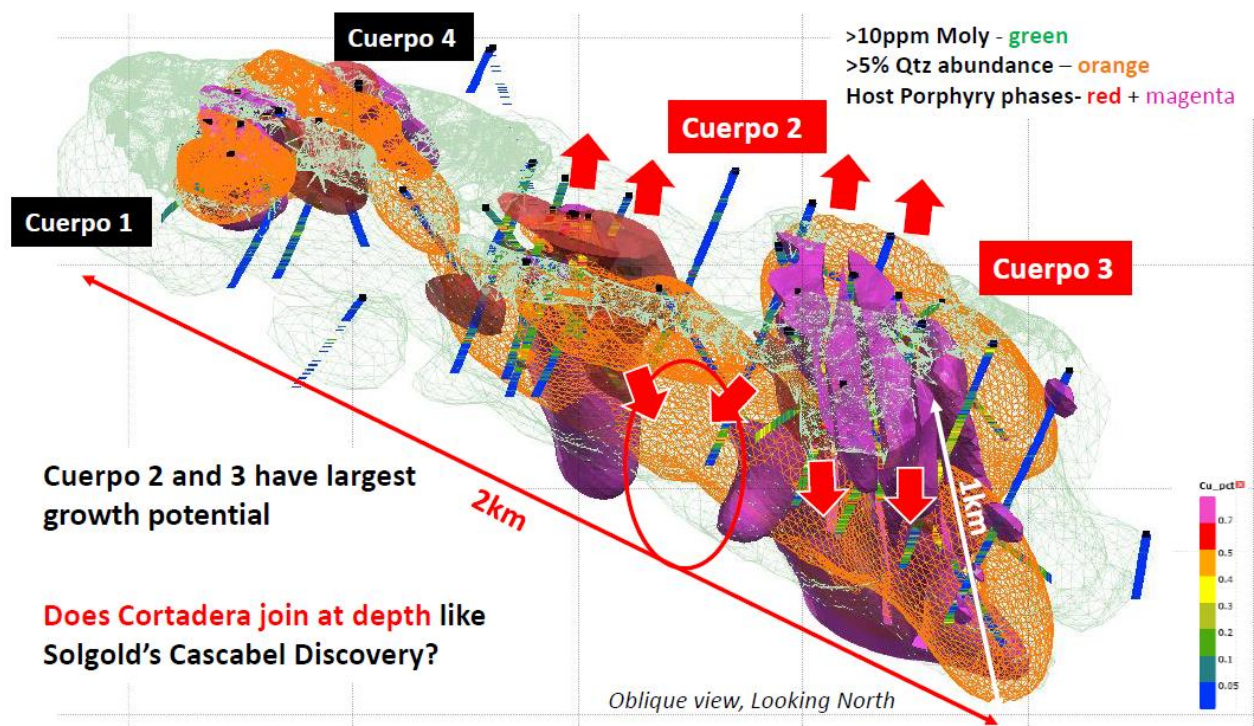
The project is ideally located in a mining friendly jurisdiction

Chile is the world's largest copper producer. The copper endowment is well known – with production of over 5Mtpa with Chilean mines accounting for over 25% of global supply. The Company's projects are located at low altitude (between 800 and 900 metres) compared with projects at elevation in the Andes such as the Escondida copper mine which is at 3,000 metres above sea level. The low altitudes and attractive coastal location are a significant positive as the infrastructure location reduces capital intensity.

Cuerpo 2 and 3 may join at depth

The potential extension of Cuerpo 3 along strike and the possibility that the Cuerpo 2 and 3 deposits coalesce at depth (Figure 8), as indicated by orphaned drill intersections, allows for significant additions to the existing footprint of the deposits and therefore overall size.

**Figure 8: Cortadera Project - significant growth potential**



Source: Hot Chili Limited

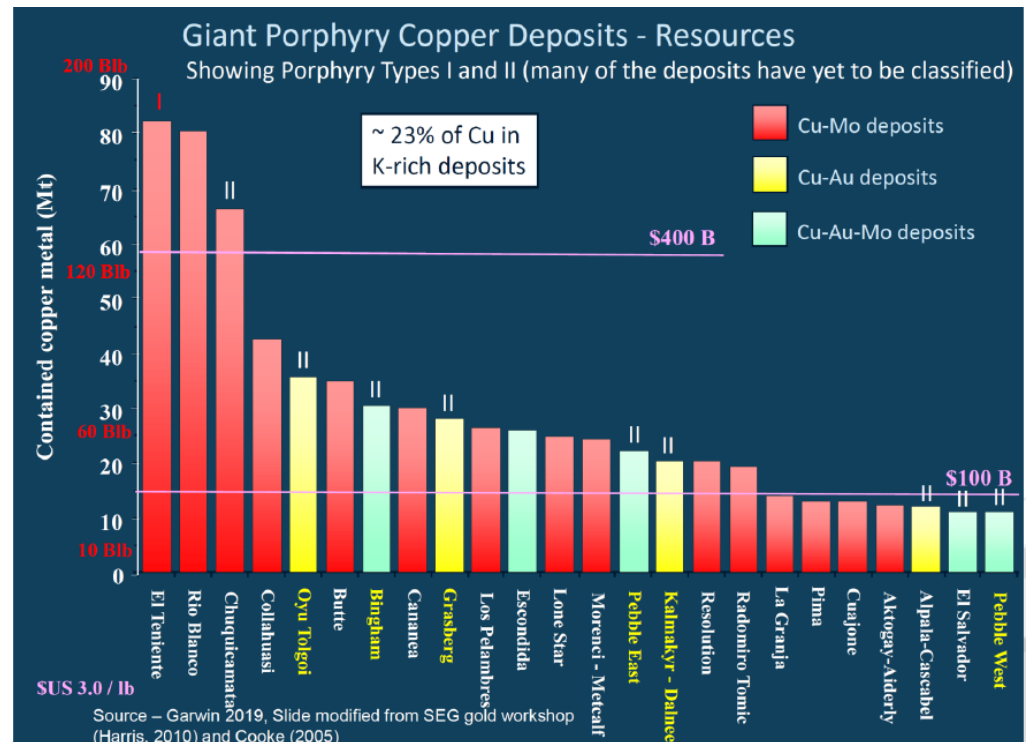
We estimate drilling has defined a mining inventory of 500Mt to date

The Cortadera deposit's average grade is equivalent to similar medium to very large Cu and Cu-Au deposits in the America's. As a simple scenario, a Cortadera mining inventory of 500Mt of sulphide ore (excluding the chalcocite blanket at surface) could provide a 20 year mine life at 25Mtpa producing in excess of 100ktpa of Cu in concentrate + 100kozpa Au credits from an open cut then bulk tonnage underground operation. An inventory of this scale would have an insitu value of US\$20B and still be off to the right of Figure 9, which illustrates world class Type I and II (where classified) Cu porphyry's.

The endowment is likely to increase with further drilling

The Cortadera project Cu-Au endowment is increasing with each drill hole which we anticipate to continue well into 2020.

**Figure 9: Porphyry Copper Deposits scale advantage to insitu value**



Source: Garwin 2019, Harris 2010, Cooke 2005, Society of Economic Geologists. Hot Chili Limited

## Financials

**Further funding is required for the stage 2 option payment**

In September 2019 HCH raised A\$12.1m with A\$4.5m (US\$3.0m) of this paid to SCM Carola in October 2019 to complete the Stage 1 option payment. Current cash levels as noted in the recent HCH presentation (<https://www.hotchili.net.au/investors/>) stands at A\$6.4m. We estimate monthly costs of approximately A\$0.8m - A\$1.0m. Therefore HCH has sufficient funds well into 2020, however further funding is required to continue drilling and for the stage 2 payment of the SCM Carola option agreement of US\$10.0m (A\$14.7m) due in July 2020. Like the stage 1 payment, the vendor may be flexible with its timing.

**Corporate interest has been mounting**

As described above the scale of Cortadera is significant and it would be remiss of HCH not to entertain corporate interest. On this basis a mid to large copper or diversified miner may invest through equity in HCH FPO shares and/or earn in under a Joint Venture structure. We prefer a corporate taking part in an equity funding which would be highly advantageous to HCH for future funding and also provide a strategic partner for project development or a takeover opportunity at a later stage.

We see potential funding scenario's as:

**Additional funding sources include equity capital markets and/or corporates**

1. Equity capital raising to fund 2020 drilling and the stage 2 option payment
2. Strategic funding from a corporate that covers the stage 2 option payment and ongoing drilling; or a
3. Combination of strategic corporate equity funding in conjunction with 1. above.

**Convertible notes:** In March 2017 HCH raised \$10.5m in unsecured convertible notes to principally pay a secured US\$6.5m loan facility with Sprott Resource Lending Partnership, which assisted funding the Productora pre-feasibility study. The 5 year notes pay at a coupon rate of 8% per annum, payable quarterly in cash or shares at HCH election. The interest is currently being paid in shares at the prior 5 day VWAP. Some note conversion has occurred at the conversion price of 3.333 cps. Current outstanding notes total 93,402 at a face value of \$100. HCH have the ability, at their election, to redeem the notes for cash if the VWAP is over 10 cps for 20 trading days.

## Valuation and Recommendation

Our price target is based on the below Peer Comparison as shown in Figure 11. On an EV per tonne of Cu metal insitu basis we see HCH as undervalued. We also see that HCH is significantly undervalued on a comparison to ASX Peers, Alkane Resources Limited and Stavely Minerals Limited, which are both in the early stages of a discovery.

**HCH is undervalued to its Peers**

**Figure 11: Peer comparison – Copper exploration and development Companies**

		Hot Chili Limited	SolGold Plc	Alkane Resources Limited	Stavely Minerals Limited	Xanadu Mines Limited	KGL Resources Limited
Code		HCH-AU	SOLG-GB	ALK-AU	SVY-AU	XAM-AU	KGL-AU
Share Price (at 21/11/19)		0.035	0.20	0.62	1.11	0.04	0.25
Share Price (at 21/11/19)	(A\$)	0.04	0.37	0.62	1.11	0.04	0.25
Shares on Issue	(m)	1682	1846	506	214	713	286
Cash	(A\$m)	6	18	58	20	3	7
Market Capitalisation (undiluted)	(A\$m)	59	690	311	237	26	72
Enterprise Value	(A\$m)	52	672	253	217	24	65
<b>Primary Project / Deposit</b>							
Name		Cortadera	Alpala	Boda	Thursday's Gossan - UCF	Kharmagtai	Jervois
Ownership	(%)	100	85	100	100	100	100
Location		Chile	Ecuador	NSW	Victoria	Mongolia	NT
Stage of Development		exploration / definition	PEA	exploration	exploration	Scoping study	Feasibility / Development
Deposit Style		Porphyry - Type II	Porphyry - Type II	Porphyry	VMS	Porphyry	VMS?
Resource	(Mt)	na	2.05Bt @ 0.41% Cu, 0.29g/t Au	na	na	470Mt @ 0.31% Cu, 0.19g/t Au	26.6Mt @ 1.47% Cu, 24.7g/t Ag
Best intercept		750m @ 0.6% Cu, 0.2g/t Au	na	502m @ 0.48g/t Au, 0.28% Cu	32m @ 5.88% Cu, 1.0g/t Au, 58g/t Ag	na	na
Number of drill holes since discovery		+20	na	1	4	na	na
EV per tonne Cu metal insitu	A\$/t	na	79.9	na	na	16.3	167.3

Source: Company reports, Veritas estimates

Notes: All Mcap are undiluted, ALK is a gold producer from the Tommingly gold project in NSW (production of circa 30-35koz in 20FY), HCH ownership subject to the fulfillment of a option to acquire 100%

Source: Veritas Research, Hot Chili Limited, Company reports

**We value HCH based on our estimate of current Cu metal tonnes insitu**

We estimate that the drilling undertaken by HCH over the past 6 months has doubled the original size of an informal and non-JORC resource at the time of signing the binding MOU in February 2019. On this basis, assuming our assumption of a possible current non-JORC resource of 500Mt or approximately 2.5Mt of Cu metal insitu, we place a A\$50/t (US\$34/t) Cu metal insitu value on our non-JORC resource estimate which provides for our price target of 7.5 cps undiluted for the convertible notes (6.4cps diluted).

**HCH has no 'discovery' or market expectation built into its share price**

Alternatively on a market 'discovery' success rating we see the market expectation of both Alkane Resources Limited and Stavely Minerals Limited to continue with positive follow up drilling as they define their respective discoveries which is in stark disparity to HCH with its drill defined deposit open in most directions. Significantly over 20 holes have been drilled into Cuerpo 3 (further holes pending) whereas Boda has a discovery drill hole (ALK now drilling 3 more) and the SVY Thursday Gossan-UCF zone has 4 drill holes released to market (further holes pending).

**Short term price target of 7.5 cps**

We recommend a Speculative BUY and place a short term price target of 7.5 cps based on our insitu Cu metal assumption and peer comparison analysis. We therefore see a Market Capitalisation of approximately \$125m for HCH as reasonable based on our peer comparison which is underpinned by ongoing newsflow from infill and extensional drilling which is to be released well into June half 2020.

## Directors and Management

The company has a strong board with technical and financial expertise with specific Chilean country knowledge. Technical experience includes exploration and project development that when combined with financial acumen places the company in a good position to explore for copper in Chile. Mr Christian Easterday has steered the company to be in an enviable position as an emerging copper development company. Brief bio's of the board and management are provided below.

**The board and management is complemented by highly regarded specialist consultants**

### **Murray Black, Non-Executive Chairman.**

Mr Black has 35-years of experience working within the mining and exploration industries. In addition, Mr Black has interests in an Australian drilling business and other commercial interests and also has experience in capital financing.

### **Christian Easterday, Managing Director.**

Mr Easterday has over 17 years of experience in the mining and exploration industries. He holds a honours degree in geology, a masters degree in Mineral Economics from Curtin University of Technology, and a masters degree in Business Administration from Curtin's Graduate School of Business. Mr Easterday has held senior positions in major gold miners including Placer Dome and Harmony Gold. He has shown strong negotiation skills that have enabled Hot Chili to build an exciting portfolio of copper exploration projects via completing option agreements at low prices versus costs that would accrue from starting to explore from scratch in Chile.

### **Allan Trench. Non-Executive Director.**

Mr Trench has 20 years of experience working as a geologist and geophysicist, and as a management consultant across a broad range of commodities. Dr Trench also holds a Masters degree in Mineral Economics and a Masters degree in Business Administration. He has worked in various roles for major companies including Western Mining Corporation, Woodside Petroleum and McKinsey and Company.

### **Michael Anderson, Non-Executive Director.**

Mr Anderson has 20 years of experience working in Australia and South Africa. He started his career as a geologist for Anglo American and worked in various consulting companies prior to acting as Managing Director for Exco Resources Limited where he oversaw the

funding and development of the White Dam Gold Project. In addition, he completed feasibility studies for the Cloncurry Copper Project prior to its sale to Xstrata.

**Roberto de Andraca Adriasola, Non-Executive Director.**

Mr de Andraca is a Chilean National with 20 years of experience in the financial and mining industries. He is currently the Vice President of Business Development for Chilean iron ore and steel producer, CAP S A. He is currently overseeing the construction of the first desalination plant dedicated solely for use by mining companies in northern Chile. Experience in the finance industry was gained from working for major investment banks including Citigroup and ABN Amro. Mr de Andraca holds a Masters in Business Administration from the Adolfo Ibanez Business School of Chile. He is also a director of Chilean port, Puerto Las Losas.

**Randall Nickson, Non-Executive Director.**

Mr Nickson has more than 35 years of experience in the mining industry. Importantly he has been involved in copper exploration in Chile for 14 years. He also holds a Masters in Business Administration as well as a honours degree in Geological Engineering. Prior to becoming an independent consultant, Mr Nickson worked for 16 years in various senior roles for BHP Limited.

**Melanie Leighton, General Manager- Technical Services Group**

Ms Leighton holds a degree in Geology from the University of Western Australia, is a Member of the Australian Institute of Geoscientists, and has greater than 15 years' experience within the mineral exploration industry. She has held project and senior geologist roles with several Australian listed companies including Hill 50 Gold and Terra Gold, gaining practical and management experience within the areas of exploration, mining and resource development.

**José Ignacio Silva, Country Manager & Chief Legal Counsel**

Mr Silva gained his law degree at the University of Chile, and studied Masters in International Business Law at the University College London. He has more than 10 years' experience in litigation, commercial and mining law and business negotiations and in Tier 1 law firms in Chile. Mr Silva has also completed 2 years' work experience in London, UK in Financial Fraud at the Serious Fraud Office, where his team successfully prosecuted a high level case of corruption of foreign officials. Mr Silva has been working with Hot Chili since July 2009 and in 2011 became Chief Legal Counsel. He is responsible for mining rights acquisitions, mining consolidation, deal negotiations and business development among other things, working directly with the board of Hot Chili.

**Steve Garwin, Lead Technical Consultant**

Dr Garwin has 30 years of experience as an exploration geologist and is one of the leading authorities on porphyry, epithermal and Carlin style mineralization in the circum Pacific region. He previously worked with Newmont Mining for ten years, including two years as Chief Geologist in Nevada, USA. He has been involved with several exploration and mining projects including the Batu Hijau copper-gold porphyry deposit in Indonesia and mines of the Carlin Trend and Battle Mountain district in Nevada. Steve has been instrumental in the discovery of copper-gold mineralisation at Alpala for SolGold.

Other key consultants that are providing expertise on the Cortadera Project are provided at <https://www.hotchili.net.au/about/key-people/>

## RATING

BUY – anticipated stock return is greater than 10%

SELL – anticipated stock return is less than -10%

HOLD – anticipated stock return is between -10% and +10%

SPECULATIVE – High risk with stock price likely to fluctuate by 50% or more

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