



Peak Resources (PEK)

Positive PFS Moves Ngualla Closer to Production

BUY

Risk: HIGH

Key Information

Price (\$)	0.081
Base Case Valuation (\$)	0.380
Target Price (\$)	0.250
Market Cap (\$M)	25.1
GICS Sector	Materials
52 week Hi-Lo (\$)	0.19 - 0.05
Daily Vol (M, mth avg)	0.7
Weight of S&P 200 Index (%)	0.0
Cash - Mar 14 (\$M)	3.1
Debt (\$M)	0.0
Gearing [ND/(ND+E)] (%)	0.0
Forecast Total Return (%)	208.6

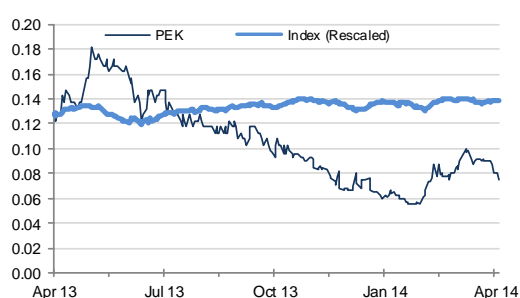
Investment Fundamentals

Y/E June	FY15E	FY16E	FY17E	FY18E
Sales (\$M)	0.0	0.0	0.0	91.4
EBITDA (\$M)	-3.6	-3.6	-3.7	47.0
Margin (%)	na	na	na	51
NPAT (\$M)	-3.5	-7.3	-6.7	25.9
EPS (cps)	-0.01	-0.01	-0.01	0.03
EPS Growth (%)	n.a.	n.a.	n.a.	n.a.
DPS (cps)	0.00	0.00	0.00	0.00
Franking (%)	0.0	0.0	0.0	0.0

Ratio Analysis

Y/E June	FY15E	FY16E	FY17E	FY18E
PE (x)	n.a.	n.a.	n.a.	2.4
Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0	0.0	0.0	0.0

PEK vs S&P/ASX Market Index



Performance	1 Mth	3 Mth	12 Mth
Absolute (PEK)	-23.47	20.97	-47.24
Rel to Market (%)	-26.78	16.18	-57.18

Major Shareholders

	%
JP Morgan Nominees	4.7
National Nominees	4.1
UBS Nominees	3.5

Directors and Management

Alastair Hunter	Non-Executive Chairman
Darren Townsend	Managing Director
Jeff Dawkins	CFO/Company Secretary
Dave Hammond	Technical Director
Jonathan Murray	Non-Executive Director

Event

PEK has released the results of a Preliminary Feasibility Study (PFS) and a maiden Ore Reserve for the Ngualla Rare Earth project in Tanzania. **Buy recommendation maintained with A\$0.25 price target.**

Highlights

- Long life operation:** The maiden Ore Reserve released in conjunction with the PFS provides sufficient ore for a 58 year mine life, utilising only resources within the high grade Bastnaesite Zone. This zone represents only 22% of the greater Ngualla resource, one of the world's largest and highest grade rare earth deposits. **The operation is expected to produce ~10,000t per annum of separated high purity rare earth oxides.**
- Revised Cost Estimates:** The PFS estimates the pre-production capital requirement for Ngualla at US\$367m, including a 30% (US\$84.7m) contingency. This is a significant reduction on the scoping study estimate of US\$373m (excluding contingency). This figure maintains Ngualla's position as the only rare earth development capable of producing separated rare earth products with a capital requirement of <US\$800m. LOM average operating costs are estimated at US\$11.74/kg. **The unique combination of high grade, the outcropping nature of the mineralisation, favourable metallurgy and low levels of uranium and thorium enable lower operating and capital costs relative to peers.**
- Development timeline:** Based on the positive PFS outcomes, PEK plans to move rapidly into a Definitive Feasibility Study (DFS) in parallel with environmental and mining approvals. Incorporated in the DFS will be construction of beneficiation and recovery pilot plants to complement the successful separation pilot plant test work already completed. **Construction is forecast to commence in early 2016, with commissioning to follow 18 months later in mid-2017.**
- Target Price:** Given the current constraints on access to capital in the junior resource sector; our A\$0.25 target price reflects a risk weighting of PEK achieving project financing. We have attached a 50% probability to our base case scenario (A\$0.38/share) and a 50% probability to a downside scenario where PEK are unable to secure the funding required to develop the Ngualla Project (A\$0.11/share). The downside valuation assumes PEK is only able to recoup the book value (A\$33.5m) of its investment in the exploration and evaluation of Ngualla plus cash on the balance sheet (A\$3.1m).

Recommendation

The positive outcomes of the PFS provide further evidence to support our view that Ngualla will become a significant long-life, low cost producer of rare earths. The unique qualities of the Ngualla deposit and its sheer size help set it apart from its peers. **We maintain our Buy recommendation with a price target of A\$0.25.**

Refer to disclaimer on last page



Financial Summary

Market Valuation Metrics

Recommendation	BUY
Risk	HIGH
Price (A\$)	0.081
Target Price (A\$)	0.25
Net Present Value (A\$)	0.38
Issued Capital (M)	334.3
Market Cap (\$m)	27.1
Year End	30 Jun
Total Shareholder Return (%)	203.3%

Investment Statistics

YE 30 Jun	FY13A	FY14E	FY15E	FY16E	FY17E
NPAT (Reported)	(2.3)	(3.4)	(3.5)	(7.3)	(6.7)
NPAT (Adjusted)	(2.3)	(3.4)	(3.5)	(7.3)	(6.7)
EPS (Adj \$)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
P/E (x)	n.a.	n.a.	n.a.	n.a.	n.a.
P/NPV (x)	0.2	0.2	0.1	0.0	0.0
Div (\$)	0.00	0.00	0.00	0.00	0.00
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%	0%
(ND/(ND+E)) (%)	na	na	na	6.1%	49.6%
Net Debt/Equity (%)	na	na	na	6.5%	98.5%
ROE (%)	-6.4%	-9.5%	-8.5%	-5.3%	-5.1%
ROA (%)	-6.1%	-9.2%	-8.3%	-2.7%	-2.5%

Profit & Loss Statement (A\$m)

YE 30 Jun	FY13A	FY14E	FY15E	FY16E	FY17E
Revenue	2.4	0.0	0.0	0.0	0.0
Revenue growth (%)	na	(100.0%)	na	na	na
EBITDA	(2.9)	(3.5)	(3.6)	(3.6)	(3.7)
EBITDA margin (%)	(121.5%)	na	na	na	na
Depreciation & Amortization	(0.1)	0.0	0.0	0.0	0.0
EBIT	(2.4)	(3.5)	(3.6)	(3.6)	(3.7)
EBIT margin (%)	(101.1%)	na	na	na	na
Net interest	0.1	0.1	0.1	(3.7)	(3.0)
Pretax profit	(2.3)	(3.4)	(3.5)	(7.3)	(6.7)
Tax	0.0	0.0	0.0	0.0	0.0
Reported NPAT	(2.3)	(3.4)	(3.5)	(7.3)	(6.7)
Significant items	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	(2.3)	(3.4)	(3.5)	(7.3)	(6.7)
NPAT margin (%)	(97.1%)	na	na	na	na

Cashflow Statement (A\$m)

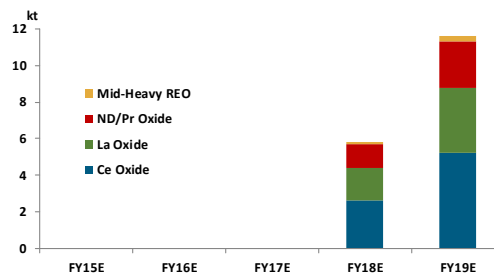
YE 30 Jun	FY13A	FY14E	FY15E	FY16E	FY17E
EBITDA	(2.9)	(3.5)	(3.6)	(3.6)	(3.7)
Working Capital Investment (Inc)/Dec	(2.4)	(0.7)	0.0	0.0	0.0
Gross Cash Flow	(5.3)	(4.2)	(3.6)	(3.6)	(3.7)
Tax Paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Operating cashflow	(5.3)	(4.2)	(3.6)	(3.6)	(3.7)
Investing Activities	(6.8)	0.0	0.0	(111.5)	(113.0)
Free Cash Flow	(12.1)	(4.2)	(3.6)	(115.1)	(116.7)
Equity raised/options exercised	10.2	3.3	9.0	32.5	0.0
Debt Raised/(paid)	0.3	(0.3)	0.0	132.1	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Net interest (paid)/received	0.1	0.1	0.1	(3.7)	(3.0)
Financing cashflow	10.6	3.1	9.1	160.9	(3.0)
Other	0	0	0	71	0
Net change in cash	(1.1)	(1.1)	5.5	116.3	(119.7)

Balance Sheet (A\$m)

YE 30 Jun	FY13A	FY14E	FY15E	FY16E	FY17E
Cash	2.5	1.3	6.8	123.1	3.4
Property, Plant & Equipment	32.6	32.6	32.6	144.1	257.1
Deferred Tax Asset	0.0	0.0	0.0	0.0	0.0
Other	2.7	3.1	3.1	3.1	3.1
Total assets	37.8	37.0	42.5	270.3	263.7
Debt	0.3	0.0	0.0	132.1	132.1
Other	1.3	1.0	1.0	1.0	1.0
Total liabilities	1.7	1.0	1.0	133.1	133.1
Total shareholders equity	36.1	36.0	41.5	137.3	130.6

Ngualla Production (t) 100% basis

YE 30 Jun	FY15E	FY16E	FY17E	FY18E	FY19E
ND/Pr Oxide	0	0	0	1,293	2,586
Mid-Heavy REO	0	0	0	141	282
La Oxide	0	0	0	1,755	3,511
Ce Oxide	0	0	0	2,621	5,242
Total	0	0	0	5,811	11,621



Cash Costs Summary (US\$/kg)

	FY15E	FY16E	FY17E	FY18E	FY19E
Ngualla	na	na	na	11	11

Total Resources & Reserves - 3% REO cut-off

Resources	Mt	REO %	Contained REO
Measured	27.0	4.33	1,200,000
Indicated	13.0	3.99	520,000
Inferred	1.7	3.56	60,000
Total	41.7	4.27	1,780,000

Reserves	Mt	REO %	Contained REO
Proved	18.0	4.53	817,000
Probable	2.7	4.62	124,000
Total	20.7	4.55	941,000

Base Case Assumptions - REO Prices & Exchange Rates

YE 30 Jun	FY15E	FY16E	FY17E	FY18E	FY19E
REO basket (US\$/kg)	25.2	25.8	26.5	27.1	27.8
A\$:US\$	0.87	0.86	0.87	0.88	0.88

Sum of the Parts Valuation (SOP - NPV)

Component	\$m	/Share
Ngualla (51%)	212.7	\$0.28
Ngualla divestment (49%)	58.5	\$0.08
Net cash/(debt)	1.3	\$0.00
Equity Raised	36.0	\$0.05
Options	5.5	\$0.01
Resources/Exploration	10.0	\$0.01
Corporate costs	(34.2)	(\$0.05)
Total	289.9	\$0.38

Sensitivity Analysis - Changes in REO Revenue

REO Price (US\$)	DCF	/share
Base Case-15%	193	\$0.18
Base Case-10%	225	\$0.23
Base Case-5%	258	\$0.30
Base Case	290	\$0.38
Base Case+ 5%	322	\$0.50
Base Case+ 10%	354	\$0.67
Base Case+ 15%	388	\$0.90

Sensitivity Analysis - Changes in Discount Rate

Discount Rate	DCF	/share
10%	433	\$1.01
11%	358	\$0.72
12%	310	\$0.46
12.5% (Base Case)	290	\$0.38
13%	272	\$0.33
14%	241	\$0.25
15%	215	\$0.21

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Investment case for Peak Resources (PEK)

Peak Resources (PEK) is developing the 100% owned Ngualla rare earth project in Tanzania. PEK has rapidly developed Ngualla since it was first discovered in 2010. The quality of the Ngualla Resource has helped PEK to progress the project to the PFS stage within 3½ years of discovery, with a clearly defined path to production. **The completion of the PFS, in particular the separation test work completed at ANSTO continues to de-risk the project.** Following the completion of the PFS, PEK now plans to move the project to the DFS stage, targeting first production in mid-2017.

The size and the quality of the Ngualla resource differentiate the project from its peers. The Bastnaesite Zone, which forms the basis for the PFS accounts for only 22% of the greater Ngualla resource, yet is capable of supporting a 58 year mine life producing 10,000tpa of high purity rare earth products. The deposit not only has a high Rare Earth Oxide (REO) grade, it also has a high percentage of magnet and “critical” rare earths, which are of significantly higher value than light rare earths. Low levels of both uranium (14ppm) and thorium (51ppm) result in a benign product that unlike other operations, does not require additional regulatory permitting for product transport. We believe the quality of the project and strong demand for off-take will enable PEK to secure funding for the project, with a number of potential off-take partners said to be interested in providing project funding. This should limit dilutive capital raisings required to bring the project into production.

Favourable metallurgical properties and the outcropping nature of the mineralisation at Ngualla results in significantly lower capital and operating costs relative to comparable projects. This also enables the production of high purity separated rare earth products, adding significant value to Ngualla and providing access to a wider end user market. The low capital requirement (US\$367m) and strong operational cash flows (Shaw estimate ~US\$120m pa for first 10 years (100% basis)) results in a payback period for the project of only ~3 years. This provides an attractive investment case with potential for further expansion/optimisation.

We currently value Ngualla on spot prices, but believe there is upside risk to our rare earth oxide pricing assumptions. Rare earths are recognised as a strategic commodity, with many – including neodymium, europium and praseodymium considered ‘critical’ to some developing industries. Prices have now stabilised after the price shock of 2010 when China cut the amount of rare earths available for export, but are on average 250% higher than before with China still controlling 86% of world production. Several Western rare earth consumers are now seeking to source a significant percentage of their rare earth requirements from outside of China to mitigate supply risks, providing potential strong demand for Ngualla’s products. Some critical rare earths (including the main value drivers for Ngualla) are forecast to remain in undersupply in coming years, limiting downside risks to REO pricing.

We forecast that PEK could generate average EPS (fully diluted following project financing) of 9c/share for the first 10 years of full scale production at Ngualla. Attaching even a conservative PE multiple of 7x to the forecast earnings profile would deliver a valuation well in excess of our current target price of A\$0.25/share. Given the long-life, low-cost nature of the project (in excess of 50 years), we believe there is potential for PEK to re-rate well beyond our current valuation as Ngualla advances towards production.

PEK Base Case Valuation

We have valued PEK using a sum-of-the-parts (SOTP) valuation, assuming Ngualla is funded by a mixture of 1) a sale of a 49% interest in the Ngualla project, 2) equity raisings of A\$42m at an issue price of A\$0.10 and 3) project debt, with a maximum debt: equity ratio of 60:40. Further details of our project financing assumptions can be seen in the project financing section. Table 1 below details the components of our valuation.

Table 1: PEK SOTP Valuation

Component	\$m	/Share
Ngualla (51%)	212.7	0.28
Ngualla divestment (49%)	58.5	0.08
Net cash/(debt)	1.3	0.00
Equity Raised	36.0	0.05
Options	5.5	0.01
Resources/Exploration	10.0	0.01
Corporate costs	(34.2)	(0.05)
Total	289.9	0.38

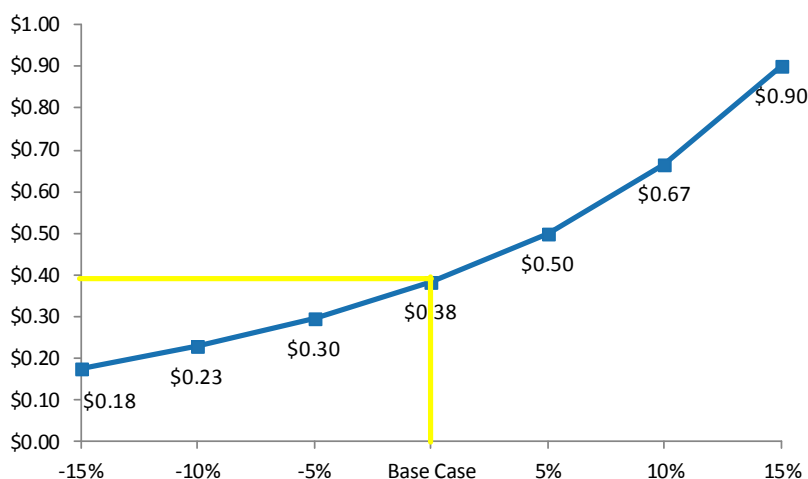
Source: Shaw Stockbroking

The valuation is calculated on a fully diluted basis, assuming the issuance of ~415m shares over the next three years to provide the equity component of the funding required to advance Ngualla to production.

Sensitivity Analysis

As with all commodity projects, Ngualla is highly leveraged to commodity prices. A 10% increase in the average REO basket price relative to our base case assumptions increases our valuation by 74%; conversely a 10% reduction in REO prices reduces our valuation by 40%.

Chart 1: Valuation Sensitivity to REO Price



Source: Shaw Stockbroking

The valuation is also highly sensitive to the discount rate utilised in the DCF analysis. Forecast equity raisings have a large impact on our valuation due to their dilutive nature at our assumed issue price of A\$0.10. **If PEK is able to achieve a sale price for an interest in Ngualla that reduces the requirement for additional capital raisings, our PEK valuation increases significantly.**



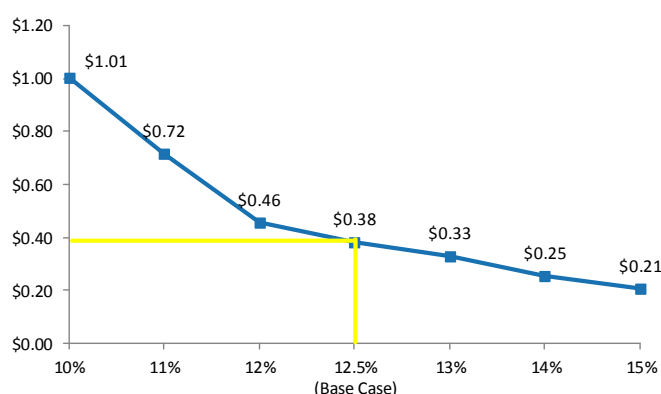
Table 2: Forecast Required Equity Raisings at Various Discount Rates

Discount Rate	FY'16E Equity Raised (A\$m)	Shares Issued (m)
10%	-	-
11%	6.9	69.2
12%	24.9	249.1
12.5% (Base Case)	32.5	325.4
13%	39.4	394.1
14%	51.2	512.5
15%	61.0	609.9

Source: Shaw Stockbroking

Chart 2 below highlights the dilutive effect of the forecast capital raising on our target price.

Chart 2: Valuation Sensitivity to Discount Rate



Source: Shaw Stockbroking

Ngualla Project Valuation

Preliminary Feasibility Study (PFS) Capital Cost Estimate

Capital costs have been estimated by PEK to ±30% level of accuracy, based on a mine and process facility capable of producing 10,000tpa of high purity separated rare earth oxides. A breakdown of the major capital items is shown in Table 3 below.

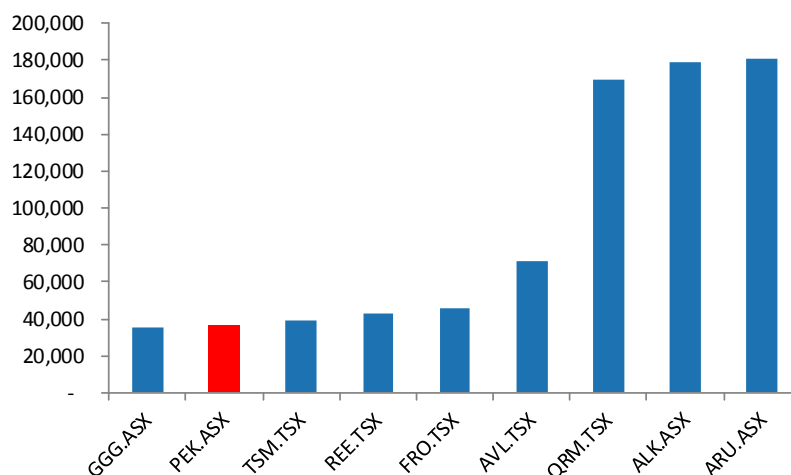
Table 3: PFS Capital Cost Estimate

Area	US\$m
Project Direct Costs	
Mine	8.5
Comminution and Beneficiation	20.0
Rare Earth Recovery Plant	37.6
Sulphuric Acid Plant	30.0
Rare Earth Separation Plant	28.6
First Fill Reagents	14.7
Waste Treatment Facility	28.3
On-Site Infrastructure	53.4
Total Project Direct Cost	221.0
Project Indirect Costs	
Owners costs	6.9
EPC	29.1
Construction Indirect Costs	21.9
Additional services	3.5
Total Project Indirect Cost	61.4
Total Capital Cost	282.4
Contingency (30%)	84.7
Total Project Cost (including contingency)	367.1

Source: Peak Resources, Shaw Stockbroking

The favourable mineralogy and simple processing solution at Ngualla relative to other rare earth projects result in significantly less capital intensity. Chart 3 below highlights Ngualla’s capital efficiency relative to peers.

Chart 3: Peer Group Capital Intensity - US\$m per t of Annual Production



Source: Peak Resources, Shaw Stockbroking

Peers include: Greenland Minerals (GGG), Rare Element Resources (REE), Tasman Metals (TSM), Frontier Metal (FRO), Avalon Base Metals (AVL), Quest Rare Minerals (QRM), Alkane Resources (ALK), and Arafura Resources (ARU).

PFS Operating Cost Estimate

Operating costs have been estimated by PEK at US\$11.74/kg of REO produced (equivalent to US\$324/t milled). The relatively simple mining process (mostly free dig and low strip ratio) results in low mining costs, with the majority of costs (~85%) incurred in processing activities. Table 4 below details the breakdown of forecast operating costs.

Table 4: Average LOM operating cost by category

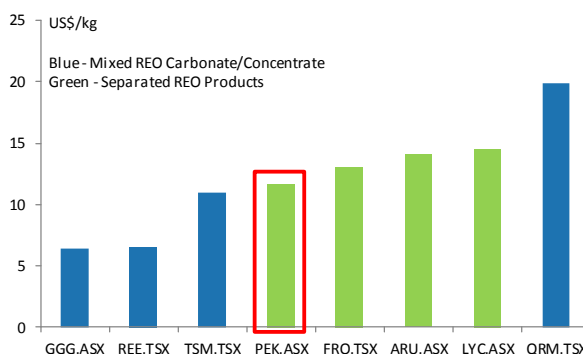
Area	% of Total	US\$/kg REO
Mining	5%	0.62
Beneficiation	11%	1.25
Hydrometallurgy	38%	4.41
Separation	35%	4.08
Site Services	1%	0.17
Transport & Shipping	10%	1.22
Total	100%	11.74

Source: Peak Resources

Chart 4 on the following page highlights Ngualla’s operating costs relative to its peer group. While Ngualla’s forecast operating costs are higher than some other projects, it has the lowest operating costs of any project producing separated REO products, which adds significant value to production.



Chart 4: Peer Group Operating Costs



Source: Peak Resources, Shaw Stockbroking

Peers include: Greenland Minerals (GGG), Rare Element Resources (REE), Tasman Metals (TSM), Frontier Metal (FRO), Quest Rare Minerals (QRM), Lynas Corporation (LYC), and Arafura Resources (ARU).

Valuation and Pricing Assumptions

We value the Ngualla project at US\$371m using a discounted cash flow methodology, predicated on the assumptions shown in Table 5 below.

Table 5: Valuation Assumptions

Assumption	Unit	Rate
Pre-production Capex	US\$m	367
Sustaining Capex	US\$m pa	9
Opex	US\$/t milled	324
Royalties	%	4.3
Tax Rate	%	30.0
REO Basket Price	US\$/kg	25.20
Annual Throughput	'000t	355
Cost Inflation	% pa	2.5
REO Price Inflation	% pa	2.5
Long-term Exchange Rate	AUD:USD	0.88
Discount Rate	%	12.5

Source: Shaw Stockbroking

Our average REO basket price is based on the latest (March 2014) spot REO prices (FOB China), weighted by the average distribution of REOs within the Ngualla Bastnaesite Zone. Table 6 below details the average historical Ngualla basket and PEK's and Shaw's assumed prices.

Table 6: Historical and Forecast REO Prices

Rare Earth Oxide	Ngualla Distribution	2010 Pricing US\$/kg	2011 Pricing US\$/kg	2012 Pricing US\$/kg	2013 Pricing US\$/kg	PEK Assumption US\$/kg	Shaw Assumption US\$/kg
Lanthanum Oxide	27.60%	25	105	22	8	8	6
Cerium Oxide	48.20%	23	103	22	8	6	5
Praseodymium Oxide	4.73%	49	196	112	94	140	124
Neodymium Oxide	16.60%	49	234	114	70	80	68
Samarium Oxide	1.60%	17	104	59	14	12	9
Europium Oxide	0.30%	558	2,924	2,332	1,126	1,100	925
Gadolinium Oxide	0.61%	24	149	90	47	47	47
Terbium Oxide	0.05%	542	2,387	1,873	936	945	825
Dysprosium Oxide	0.08%	232	1,471	980	534	550	465
Holmium Oxide	0.01%	na	na	na	na	60	60
Erbium Oxide	0.03%	na	na	na	na	60	60
Thulium Oxide	0.00%	na	na	na	na	1,100	1,100
Ytterbium Oxide	0.01%	na	na	na	na	52	52
Lutetium Oxide	0.00%	na	na	na	na	1,271	1,271
Yttrium Oxide	0.20%	29	136	85	25	25	19
Total Ngualla Basket	100%	31.04	140.47	51.28	26.73	29.53	25.20

Source: Shaw Stockbroking, Peak Resources, Arafura Resources



Table 7 below details our forecast cash flows from FY'16 to FY'25. Once at a steady state of production, we forecast Ngualla to generate an average of US\$118m free cash flow per annum from FY'20 to FY'25.

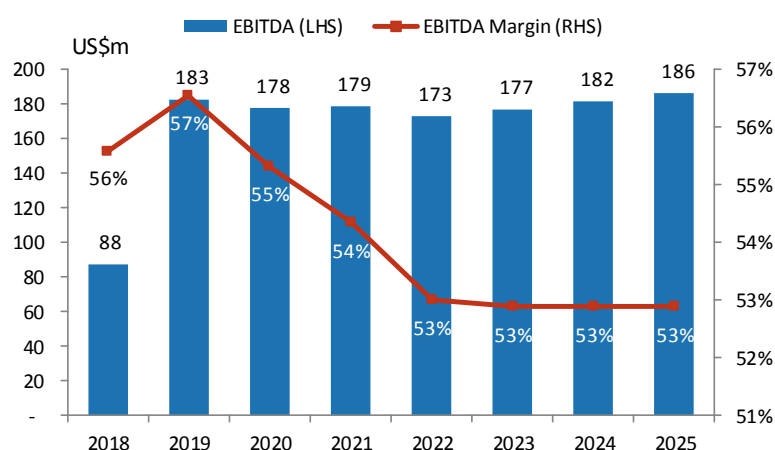
Table 7: Ngualla forecast cash flows FY'16 – FY'25 (100% basis)

	Unit	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	US\$m	-	-	158	323	321	329	327	335	344	352
Operating Costs	US\$m	-	-	(63)	(127)	(130)	(136)	(140)	(144)	(147)	(151)
Royalties	US\$m	-	-	(7)	(14)	(14)	(14)	(14)	(14)	(15)	(15)
Tax	US\$m	-	-	(25)	(53)	(51)	(52)	(50)	(51)	(52)	(54)
Capex	US\$m	(188)	(193)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Working Capital	US\$m	-	-	(16)	(17)	0	(1)	0	(1)	(1)	(1)
Total	US\$m	(188)	(193)	38	104	118	118	115	117	120	123

Source: Shaw Stockbroking

We forecast the Ngualla project (exclusive of corporate costs) to generate EBITDA of ~US\$180m p.a. during the first 10 years of full production at an average EBITDA margin of 54%.

Chart 5: Ngualla Forecast EBITDA & EBITDA Margin (100% basis)



Source: Shaw Stockbroking

Project Financing Assumptions

PEK has stated it is in discussions with a number of potential strategic funding partners for project construction, some of whom also have a strong interest in an off-take arrangement. PEK aims to complete formal agreements with off-take customers during the DFS stage of project development.

We have assumed that PEK will sell a 49% interest in the Ngualla project to an off-take partner to help fund capital expenditure. The assumed price received for the sale of the 49% interest is US\$91m, equivalent to a 50% discount to our base case estimated value of the interest. This would leave PEK with a majority interest in the project, while limiting dilutive equity raisings required to fund its share of capital expenditure. We have also modelled an additional equity raising of A\$3.5m in FY'15E and the conversion of 55m options at A\$0.10 to fund DFS activities.

We have assumed that debt funding of PEK's contribution to the capital requirement will be limited to a 60:40 debt to equity ratio. In our base case scenario, this would still leave PEK with a requirement to raise ~A\$30m to fund Ngualla through to production after receiving US\$64m (after tax) for the sale of a 49% interest in the project. We assume an issue price of A\$0.10 per share for future equity raisings.

Target Price

Given current constraints on access to capital in the junior resource sector; we have attached a 50% probability to our base case scenario (A\$0.38/share) and a 50% probability to a downside scenario where PEK is unable to secure the funding required to develop the Ngualla Project (A\$0.11/share) in deriving our target price. The downside valuation assumes PEK is only able to recoup the money spent on exploration and evaluation of Ngualla (A\$33.5m) plus cash on the balance sheet (A\$3.1m).

PFS & Scoping Study Comparison

The PFS builds on a revised Scoping Study completed by PEK during 2013. While PEK has revised down a number of key metrics from Scoping Study estimates, the PFS has been completed to a greater level of detail, and utilises more conservative REO pricing relative to the Scoping Study. Importantly, both capital and operating cost estimates remain low relative to peers at the higher level of confidence. Table 8 below highlights the changes to key project metrics from the Scoping Study to the PFS.

Table 8: PFS vs Scoping Study Estimates

		Units	PFS	Scoping Study	Variance %
Physicals					
Average Annual Throughput		t	355,000	333,000	7%
Life of Mine		years	58	50+	na
Average Grade		% REO	4.54	5.35	-15%
Average Grade for first 20 Years		% REO	5.16	5.36	-4%
Average Strip Ratio		x	2.23	0.89	151%
Total REO recovery		%	62	57	9%
Average Annual REO Production	ND/Pr Oxide	t	2240	2125	5%
	Mid-Heavy REO	t	245	288	-15%
	La Oxide	t	3042	2756	10%
	Ce Oxide	t	4542	4810	-6%
	Total	t	10069	9979	1%
Financials					
Capital Cost		US\$m	367	485	-24%
Average C1 Cash Cost FOB		US\$/kg	11.74	10.18	15%
Product Basket Price		US\$/kg	29.29	38.84	-25%
NPV (before tax and royalties)		US\$m	1,310	1,768	-26%
IRR (before tax and royalties)		%	41	60	-32%
Payback from production start-up		years	3	2	50%

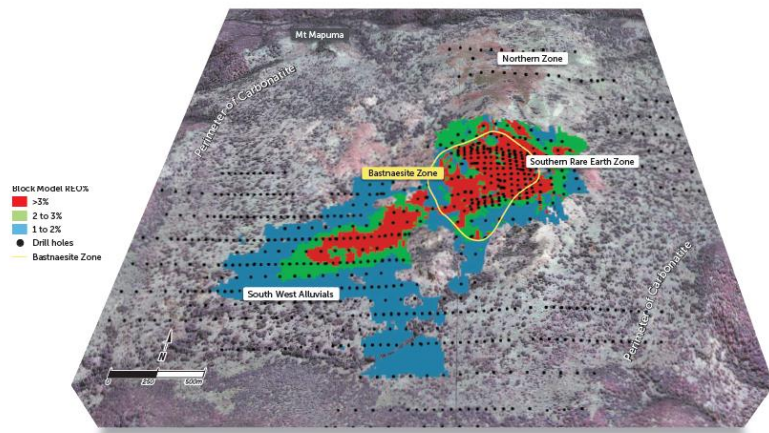
Source: Peak Resources, Shaw Stockbroking

The findings of the PFS reaffirm our belief that Ngualla has the potential to become a significant, long-life, low-cost producer of high purity rare earth oxides and support a path forward for the development of the project. Based on the outcomes of the PFS, PEK plans to move directly to a DFS to progress Ngualla towards production.

Geology & Resources

The Ngualla rare earth deposit is globally significant due to its large size and high grade. The 1 Billion year old Ngualla Carbonatite is a 4km x 3.5km pipe like intrusive complex. Rare Earth mineralisation occurs over a 1km x 1km area within the Southern Rare Earth Zone (SREZ) and is enriched to 3.0-8.0% REO from surface to depths of up to 140m within the weathered zone. The primary carbonatite is also mineralised at typical grades of 1.0-2.5% REO. The SREZ mineralisation is comprised of a central Bastnaesite Zone surrounded by a peripheral mixed zone.

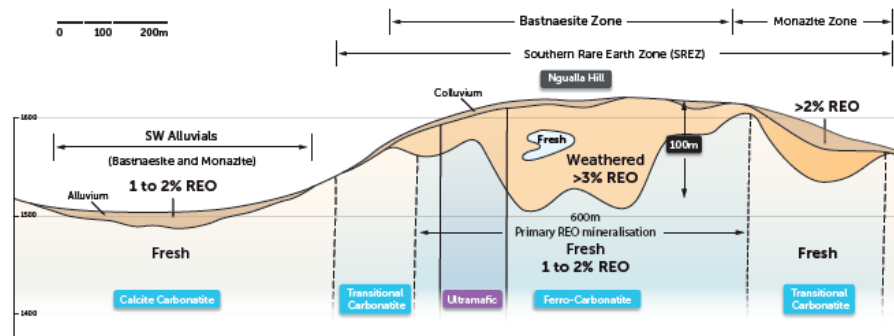
Chart 6: Perspective view of Ngualla Mineral Resource



Source: Peak Resources

The Bastnaesite Zone of the greater Ngualla rare earth deposit is identified as having the most favourable mineralogy for low cost metallurgical extraction as well as having the highest rare earth grade, and was the focus of the PFS.

Chart 7: Ngualla Deposit Cross Section



Source: Peak Resources

The mineral resources for Ngualla were reported according to the 2004 JORC Code by independent resource consultants H&S Consultants Pty Ltd, incorporating the 40,400m of drilling completed by PEK since discovery in 2010. Table 9 below details the defined resource at 1% and 3% REO cut-off grades.

Table 9: Ngualla Resource at 1.0% and 3.0% REO cut-off grades

Lower cut – off grade	Category	Mt	REO %	Contained REO '000t
1.0% REO	Measured	81	2.66	2,100
	Indicated	94	2.02	1,900
	Inferred	20	1.83	380
	Total	195	2.26	4,400
3.0% REO	Measured	27	4.33	1,200
	Indicated	13	3.99	520
	Inferred	2	3.56	60
	Total	42	4.19	1,800

Source: PEK Resources

A sub-set of the Ngualla resource, the +3% REO weathered Bastnaesite Zone comprises 22% of the total Ngualla Mineral Resource at a 1% REO cut-off grade in terms of contained REO formed the basis of the maiden Ore Reserve. The Bastnaesite Zone is a high confidence Mineral Resource, with 99.5% classified as Measured or Indicated, with the majority (86%) Measured.

Table 10: Bastnaesite Zone Resource at 3.0% REO cut-off grade

Lower cut – off grade	Category	Mt	RE O %	Contained REO '000t
3.0% REO	Measured	19.0	4.53	840
	Indicated	2.9	4.62	140
	Inferred	0.1	4.10	4
	Total	21.6	4.54	982

Source: Peak Resources

Ngualla is not only an extremely large rare earth deposit but is also high quality as a result of high grades, favourable mineralogy for processing, low levels of uranium and thorium and a favourable proportion of high value neodymium, praseodymium and europium. Table 11 on the next page shows the relative components of individual rare earth element oxides (including yttrium) as a percentage of total REO for the weathered Bastnaesite Zone +3% REO and Total Ngualla +1% REO Mineral Resources.

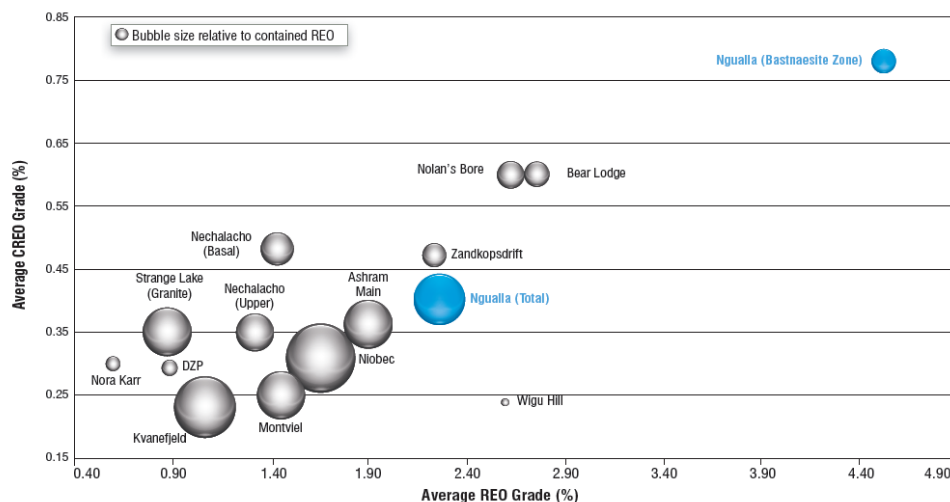
Table 11: Relative distribution of Ngualla Rare Earth Oxides

	Rare Earth Oxide		Distribution Total Resource 1% cut	Distribution Bastnaesite Zone 3% cut
Light Rare Earths	Lanthanum Oxide	La ₂ O ₃	27.10%	27.60%
	Cerium Oxide	CeO ₂	48.20%	48.20%
	Praseodymium Oxide	Pr ₆ O ₂	4.81%	4.73%
	Neodymium Oxide	Nd ₂ O ₃	16.30%	16.60%
	Samarium Oxide	SM ₂ O ₃	1.67%	1.60%
Heavy Rare Earths	Europium Oxide	Eu ₂ O ₃	0.35%	0.30%
	Gadolinium Oxide	Gd ₂ O ₃	0.76%	0.61%
	Terbium Oxide	Tb ₄ O ₇	0.07%	0.05%
	Dysprosium Oxide	Dy ₂ O ₃	0.16%	0.08%
	holmium Oxide	Ho ₂ O ₃	0.02%	0.01%
	Erbium Oxide	Er ₂ O ₃	0.06%	0.03%
	Thulium Oxide	Tm ₂ O ₃	0.00%	0.00%
	Ytterbium Oxide	Yb ₂ O ₃	0.02%	0.01%
Other	Lutetium Oxide	Lu ₂ O ₃	0.00%	0.00%
	Yttrium Oxide	Y ₂ O ₃	0.48%	0.20%
	Total		100.00%	100.00%

Source: Peak Resources

The size, high grade nature and prevalence of high value, “critical” rare earth oxides differentiate Ngualla from other major global rare earth development projects.

Chart 8: Global REO deposits



Source: Peak Resources

Mining & Reserves

Mining studies indicate the viability of a modest sized but long life open pit operation with a low life-of-mine (LOM) waste strip ratio of 2.23x which, at a 10,000tpa REO production level, can provide sufficient feed for an initial mine life well in excess of 50 years based solely on the weathered Bastnaesite Zone portion of the greater Ngualla deposit. 80% of the final pit shell is expected to be free dig, eliminating costs associated with drill and blast activities. A total average mining rate (inclusive of waste) of 1.2Mtpa is estimated over the LOM. The mining method is conventional open pit, load, haul and dump using a fleet of small sized owner operated earthmoving equipment centred on one 70 tonne excavator and four 40 tonne trucks.

Table 12: Ngualla Project Ore Reserve

Classification	Mt	REO %	Contained REO '000t
Proved	18.0	4.53	817
Probable	2.7	4.62	124
Total	20.7	4.54	941

Source: Peak Resources

Initial pit development preferentially targets the higher grade and higher value ore. To further enhance project economics, given the low percentage of total costs attributable to mining (~5% of total operating costs), lower grade ore (<3% REO) is selectively stockpiled for later processing allowing access to higher value material earlier in the processing schedule.

Processing

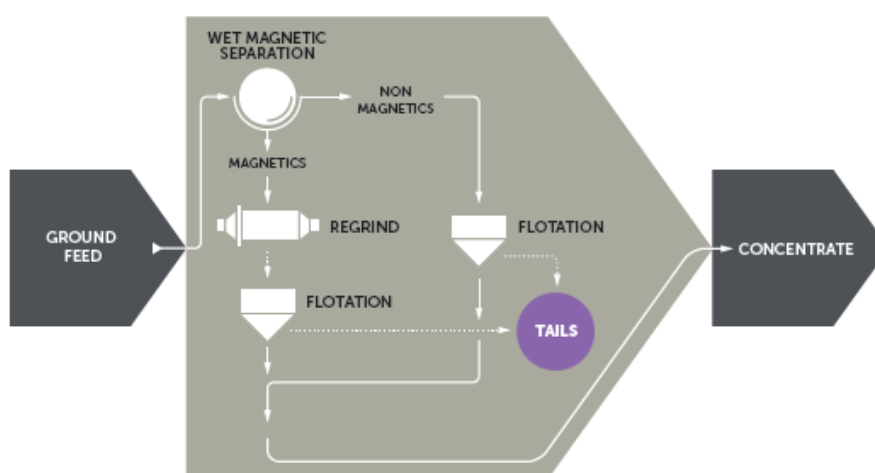
Metallurgical test work and verification programs have provided detailed data to support engineering design and cost estimates. The favourable mineralogy, efficient beneficiation, simple sulphuric acid recovery process and conventional solvent extraction drive low production and capital costs to distinguish Ngualla from other rare earth projects. Complex and high energy baking or “cracking” processes are not required at Ngualla to produce high quality rare earth products.

The PFS has identified a three stage extraction process from mineralisation to four separated, high purity products.

Beneficiation

Ground material is first fed to a wet high intensity magnetic separator (WHIMS) that produces a magnetic, iron rich concentrate with high REO grades, and a non-magnetic stream containing largely silica, barite with a lower concentration of rare earth minerals. The magnetic fraction is re-ground to 80% passing 45µm in a small 80kW mill to liberate the rare earth minerals from the iron oxides. Both the non-magnetic tails and the ground magnetic concentrate from the WHIMS then report to standard flotation tank cells to further recover and concentrate the rare earth host minerals (mainly bastnaesite). The flotation process utilises reagents to specifically target bastnaesite recovery to the froth concentrate whilst rejecting the silica, barite and iron oxides to the tailings. The flotation tailings are pumped to a tailings storage facility (TSF). The combined beneficiation concentrate is dewatered via a filter press and stored in bunkers ready to feed to the Recovery Plant.

Chart 9: Ngualla Beneficiation Flowsheet

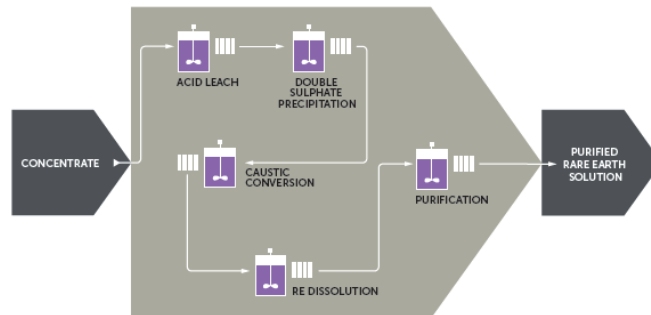


Source: Peak Resources

Recovery

PEK has demonstrated a simple hydrometallurgical flow sheet to recover, purify and concentrate the rare earths into a form suitable for feeding to the separation plant. The "Proof of Concept" flow sheet development test work was completed at Nagrom Laboratories, in Western Australia using a composite of 25 samples taken from 6 drill holes across the weathered bastnaesite zone. Rare earth leach extractions of >94% were consistently achieved. The flow sheet was later independently confirmed by ANSTO Minerals during the preparation of feed for the solvent extraction pilot plant using a 1.3 tonne bulk composite sample of weathered mineralisation from 16 drill holes across the Bastnaesite Zone. ANSTO achieved an optimised leach extraction of 96%. The recovery process that has been developed is known as the 'Double Sulphate' route whereby a rare earth double sulphate is formed as a precipitate by the addition of sodium sulphate to the filtered solution from a sulphuric acid leach. The double sulphate precipitate then undergoes caustic conversion utilising sodium hydroxide followed by acid dissolution with hydrochloric acid. This recovery process has a number of inherent advantages over others within the industry that must use high energy acid baking and expensive kilns. The atmospheric sulphuric acid leach technique is also lower cost than alternative hydrochloric acid processes. The equipment will consist of simple tanks, pumps and filters constructed in modular form from plastic or composite materials. The resulting plant is low cost, quick to construct and easy to operate. Sulphuric acid for the recovery process will be generated on-site, providing co-generation of power via a steam turbine generator.

Chart 10: Ngualla Recovery Flowsheet



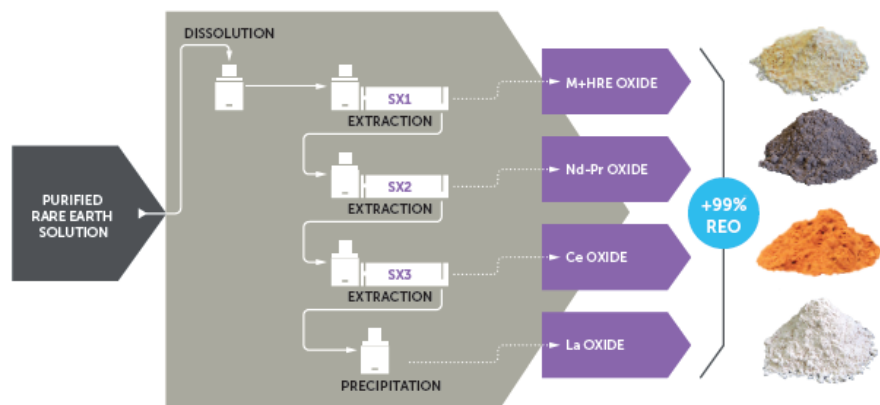
Source: Peak Resources

Separation

The ability to produce high purity separated rare earth products adds significant value to Ngualla’s products and allows access to wider end use markets. To this end, PEK commissioned Australia’s leading rare earth separation experts, ANSTO Minerals, to undertake a separation pilot plant at their research facility in Lucas Heights, near Sydney. The program commenced in February 2013 with the preparation of a feed for the solvent extraction (SX) pilot plant from a 1.3 tonne bulk sample of weathered Bastnaesite Zone mineralisation from Ngualla. ANSTO Minerals treated this sample using the simple sulphuric acid recovery process described above. By completion of the pilot plant operation in October 2013, four high purity separated rare earth oxide products were successfully produced. The products are:

- Mid+Heavy RE Oxide (+99.9% purity)
- Neodymium – Praseodymium Oxide (+99.9% purity)
- Lanthanum Oxide (+99% purity)
- Cerium Oxide (options include 90% and 99% oxide products)

Chart 11: Ngualla Separation Flowsheet

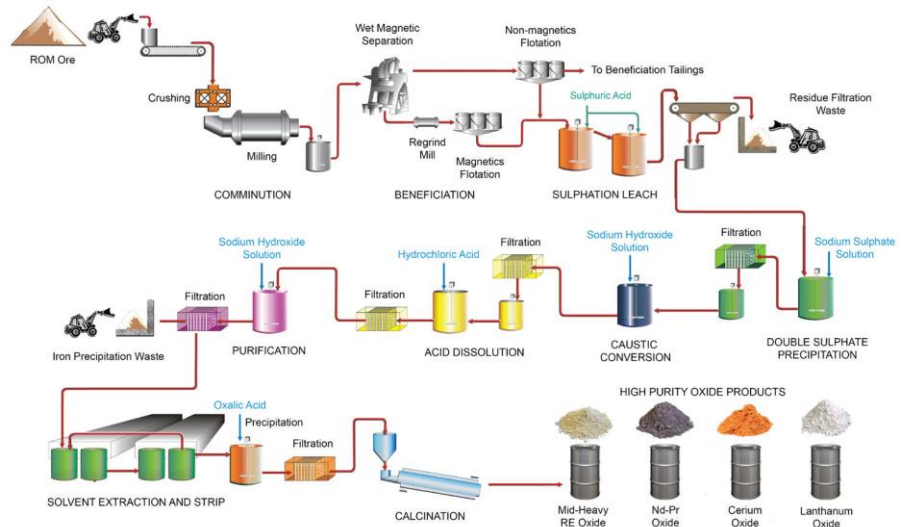


Source: Peak Resources

The successful completion of this final processing stage distinguishes PEK as one of a select few companies outside of China to have practically demonstrated all the entire process route stages from feed mineralisation to high purity separated rare earth oxide products. The SX Pilot Plant operation was important in providing quantified operating data to accurately determine separation plant capital and operating costs for input into the PFS in addition to final product samples for evaluation by potential off take partners.

The repeated sequential extraction and stripping process achieves the required separation and purity of rare earths, resulting in pure separated solutions with high rare earth concentrations. The rare earths are then recovered from the strip solutions by precipitating with oxalic acid in stirred reaction tanks to form rare earth oxalate precipitates, which are recovered using filter presses. The rare earth oxalates are then dried using a mechanical drier before being calcined at high temperatures in a rotary kiln to convert the oxalates to high purity (99.9% REO) oxide products. Upon cooling, the products are packaged into lined 200 litre drums for export to customers.

Chart 12: Ngualla Process Plant Flowsheet



Source: Peak Resources

Infrastructure & Logistics

The Ngualla Project is located 150km to the northwest of the city of Mbeya; the economic centre for the southern region of Tanzania. The Project’s location close to Mbeya provides logistic advantages through access to an all-weather sealed road and a direct link via the TAZARA railway to the deep water sea port of Dar es Salaam. The road access to Ngualla from Mbeya is along regional roads currently undergoing significant upgrades through a Tanzanian and Chinese government partnership. Access to the Project will be along an 80km stretch of local road which will be upgraded to an all-weather road and is included in the capital costs.

Chart 13: Ngualla Project Location



Source: Peak Resources

Water

Total water demand for the process plant and site infrastructure including accommodation village is estimated at 2.4GL per annum. This water will be supplied through a number of catchment dams built on the natural drainage lines over the site. Water from the tailings dam will also be recycled into the process plant. A report prepared by consultants has identified a number of areas within 5km of the processing facility where groundwater may also be sourced to supplement the catchment dam's supply during seasonal rainfall fluctuations. Within 5km of the processing facility where groundwater may also be sourced to supplement the catchment.

Power

The total electrical power requirements of the operation of 5.1MW will be produced entirely on site, ensuring continuity and quality of supply to the processing plant. Power will be produced from two sources, the sulphuric acid production plant and a combination of diesel powered generator sets. The sulphuric acid plant produces steam as a by-product of the exothermic conversion of sulphur to sulphuric acid. The energy will be harnessed via steam turbines to produce approximately 2.6MW of 'free' electricity and the excess steam will also then be used to directly heat the leach tanks in the process plant. This by-product electricity generation reduces the on-site fuel requirement and overall operating power costs by over 50%. The diesel generator has been designed to have the required capacity to cater for the entire 5.1MW of instantaneous power to allow for an initial start-up and for times such as scheduled maintenance periods where the acid plant is not in operation.

Product Transport

Rare earths are not a bulk commodity, with Ngualla planning to ship only 10,000 tonnes of separated rare earth products from site each year. Product will be packed in sealed containers and transported by third party transport companies on reagent delivery backloads from site in 20ft cargo containers. The packed containers will be loaded with minimal rehandling directly onto waiting ships at the port at Dar es Salaam for shipping to customers. The very low uranium and thorium contents of the Ngualla mineralisation and the subsequent mineral processing results in the separated rare earth product being completely benign and non-radioactive and thus no additional regulatory permitting is required for transport.

Permitting & Tenure

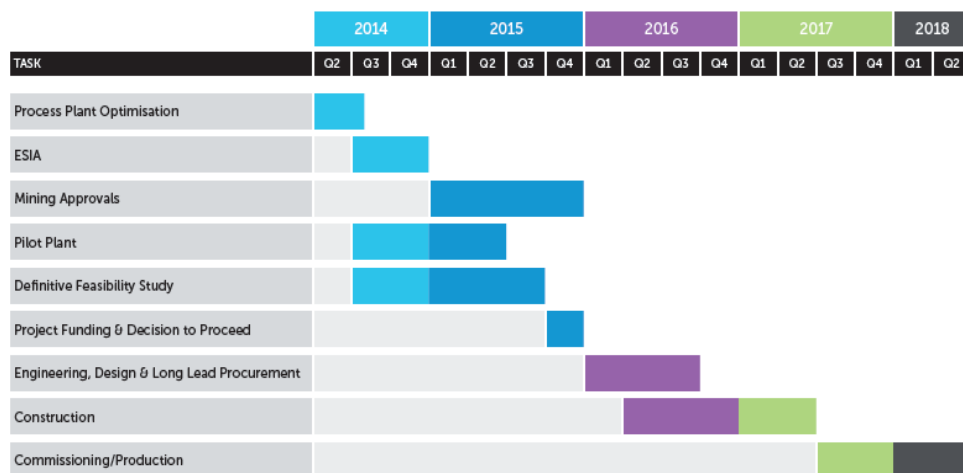
The Ngualla Project is owned 100% by PEK through its wholly owned subsidiary PR Ng Minerals Limited incorporated in Tanzania. The Project comprises two Prospecting Licences, PL6079/2009 and PL9157/2013. The licences are in good standing with the Ministry of Energy and Mines and tenure may be secured after the end of the current terms by applications for an extension of term of the PL's or for mining or retention licences under established Regulations. The village of Ngwala lies 4.5 kilometres south of the deposit. No farms, habitation or reserves occur over the carbonatite structure and proposed development area.

All mining projects in Tanzania require an Environmental and Social Impact Assessment (ESIA) to be undertaken before they are implemented and before a Mining Licence is granted, PEK will undertake the ESIA as part of the DFS. The process is well established and is expected to take between 6 to 12 months and be completed in parallel with the Definitive Feasibility study.

Development Timeline

Major milestones including the completion of the DFS, Environmental Impact Assessment and the application for mining approvals are scheduled for completion in 2015. With these milestones complete and funding in place, Ngualla is expected to commence the execution phase of detailed design and construction in January 2016 with first production and ramp-up to commence 18 months later in July 2017.

Chart 14: Ngualla Project Development Schedule

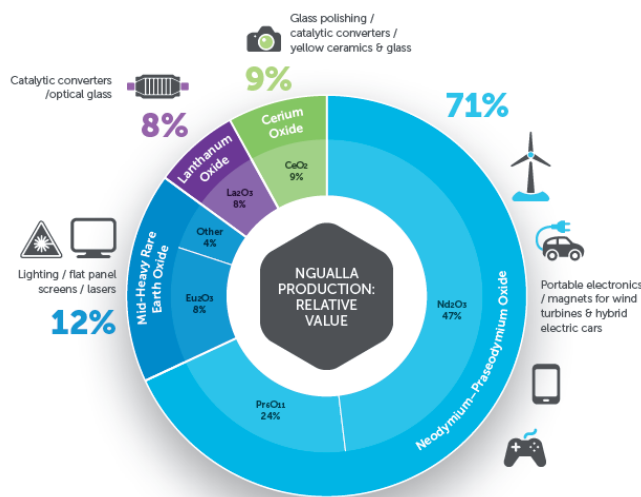


Source: Peak Resources

Sales & Marketing

Ngualla will produce and market four high purity separated rare earth oxide products. Each product is selected and designed for ready market end use. Production of high purity separated rare earth oxides adds significant value to Ngualla’s production compared to a concentrate or mixed carbonate and also allows access to a wider end use market.

Chart 15: Ngualla Value Drivers

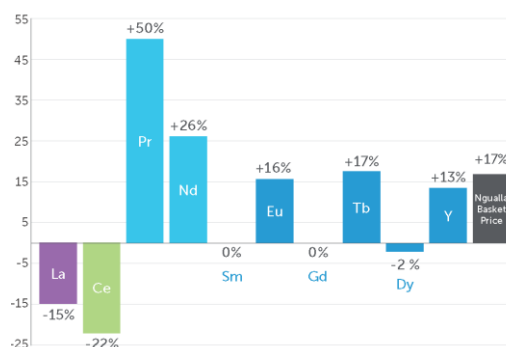


Source: Peak Resources

Chart 16 on the next page highlights that all rare earths aren’t created equal. Ngualla’s main value drivers, the high value magnet and critical rare earths have experienced price gains in recent times despite declining prices for the light rare earths.



Chart 16: REO Price Movements – July 2013 to February 2014



Source: Peak Resources

PEK is targeting a modest production level of 10,000t pa REO, which makes the marketing of production more achievable than many projects which need a higher production profile in order to make an adequate return on high capital and operating costs. PEK has held discussions with a large number of potential off-take customers and has received interest from several, though formal off-take agreements have yet to be completed. PEK signed a non-binding MOU with a Chinese rare earth producer in December 2013. Other potential customers include industrial conglomerates for the neodymium-praseodymium ‘magnet metal’ product, rare earth refiners for the Mid-Heavy product, and fluidised catalytic cracking (FCC) and/or auto catalyst manufacturers for the lanthanum and cerium products. PEK is in discussions with a number of potential strategic funding partners for project construction, some of whom also have an interest in an off-take arrangement. PEK aims to complete formal off-take agreements during the DFS.

Key Risks

As an early stage resource project our valuation is predicated on a number of assumptions which are subject to a level of uncertainty. Material risks to our valuation include, but are not limited to:

Project Financing

Our valuation assumes that PEK is able to secure the required funding for the development of the Ngualla Project according to the assumptions outlined in the project financing section. Access to capital for the development of resource projects remains constrained in the current economic environment. The quantum of the pre-production capital (~US\$370m) relative to PEK’s current market capitalisation (A\$26m) poses a significant hurdle to development. If PEK is unable to raise the funds required to develop the Ngualla Project, or is only able to raise funds on materially less favorable terms than our assumptions, our target price would reduce significantly. The current book value of the Ngualla Project of A\$33.5m plus cash on balance sheet of A\$3.1m would value PEK at 10.8 cents/share.

Rare Earth Pricing

As with all resource projects, our valuation is highly leveraged to commodity prices. Rare Earth prices can be volatile, with China a dominant producer (~90% global supply). We have used current spot prices as the basis for our base case valuation – a 10% reduction in Rare Earth prices over the life of the project reduces our base case valuation by ~40% (to A\$0.23).

Permitting

Prior to development, an Environmental and Social Impact Assessment (ESIA) must be undertaken before a Mining Licence is granted. Failure to obtain the required regulatory approvals for development could delay or halt project development.

Capital & Operating Cost Assumptions

Capital and operating cost estimates have been completed to a PFS level of accuracy ($\pm 30\%$) on the basis of mining and infrastructure studies and pilot scale metallurgical test work completed at ANSTO. Our current capital estimate includes a 30% contingency. Actual capital and operating costs may vary significantly from current estimates.

Board & Senior Management

Mr Alastair Hunter – Non-Executive Chairman

Mr Hunter has in excess of forty years' experience in exploration and management of resource companies. During this period, he has played a significant role in a number of base metal, gold and uranium discoveries. Mr Hunter was formerly a director of Peninsula Minerals NL, Matlock Mining NL and Anglo Australian Resources NL. His experience extends to working throughout Australia, Africa as well as North America.

Mr Darren Townsend - Managing Director

Mr Townsend is a mining engineer with extensive mining and corporate experience. Previously Darren has worked at De Grey Mining Ltd where he held the position of Managing Director from May 2006 to December 2007. Prior to that he was General Manager of Operations at Sons of Gwalia's (now Tailson) Wodgina Tantalum operations. Over the last 6 years Darren has been President & CEO of TSXV listed Pacific Wildcat Resources Corp where he was responsible for building a tantalum mine in Mozambique and completing the acquisition and resource drill out of a large rare earth and niobium project in Kenya.

Mr David Hammond - Technical Director

Mr David Hammond has 25 years technical and management experience. Mr Hammond was previously the Exploration Manager with De Grey Mining Limited working on projects in the Pilbara and new project acquisitions globally. His previous experience also includes Exploration Manager for Sons of Gwalia in NE Goldfields in Western Australia and Project Geologist with Billiton/Gencor in South Africa and Zambia.

Mr Lucas Stanfield - Chief Development Officer

Mr Stanfield is a Mining Engineer with over 15 years' experience in mining and project management in Australia, Africa, and the United Kingdom. Mr Stanfield's early Australian experience included new project developments and expansions in the mining industry which lead to the move to the United Kingdom where his skills in project management were refined while working on large scale infrastructure and process manufacturing projects for the London Underground, AMEC, and Bovis Lend Lease. Returning to Australia in 2010 Mr Stanfield took a principal project management role in the Mining and Resources division at Emerson Stewart Consulting.

Mr Jonathan Murray - Non-Executive Director

Mr Murray is a partner at independent corporate law firm Steinepreis Paganin, based in Perth, Western Australia. He specialises in equity capital raisings, all forms of acquisitions and divestments, governance and corporate compliance. Mr Murray is a non-executive director of Highfield Resources Limited, Laguna Resources NL and Kalgoorlie Mining Company Limited.

Mr Jeffrey Dawkins – CFO/Company Secretary

Mr Dawkins has a strong background in mining and has worked with various mining companies involved with gold, copper, rare earth and iron ore. His previous appointment was as Chief Financial Officer of Archipelago Resources Plc ("Archipelago") from November 2006 until February 2012 Mr Dawkins has also worked for Deloitte and has held senior finance roles with listed resource companies including Marengo Mining Ltd, Lynas Corporation, Schlumberger and Weatherford.



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Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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