

# Panoramic Resources Limited

Deep value; poised for resource growth



Wilson HTM  
INVESTMENT GROUP

11 April 2011

\$2.29

BUY

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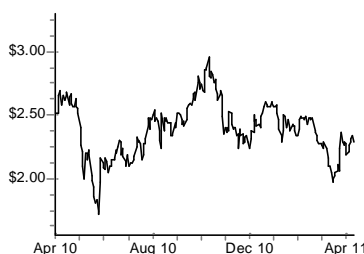
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## Price Performance



## Security/Capital Details

ASX Code	PAN
Market Cap	\$481 M
Issued Shares (dil)	209.9 M
Avg Mth T'over	23.35 M
12 Mth High – Low	\$2.96 - \$1.72

## Key Data/Ratios – FY 2011

EBITDA / Sales	45.2%
EBIT / Sales	26.4%
Debt / Equity	0.9%
Interest Cover	73.3 x
ROE	14.7%
EPS Growth	-12.7%
DCF	\$3.75
12 Mth Price Target	\$3.81

## Recommendation

We reiterate the BUY recommendation, noting that there has been recent price weakness whilst the underlying fundamentals of the stock remain robust. Moreover, there remains upside potential to production and resources at both Lanfranchi and Savannah. We also see limited value currently attributed to the Gidgee Gold Project and its near-term resource upgrade potential. PAN offers leverage to a nickel market which we see likely as being in modest deficit or balance over the next few years and represents deep value at these price levels. BUY maintained, valuation and target price are \$3.75/sh and \$3.81/sh respectively.

## Key Points

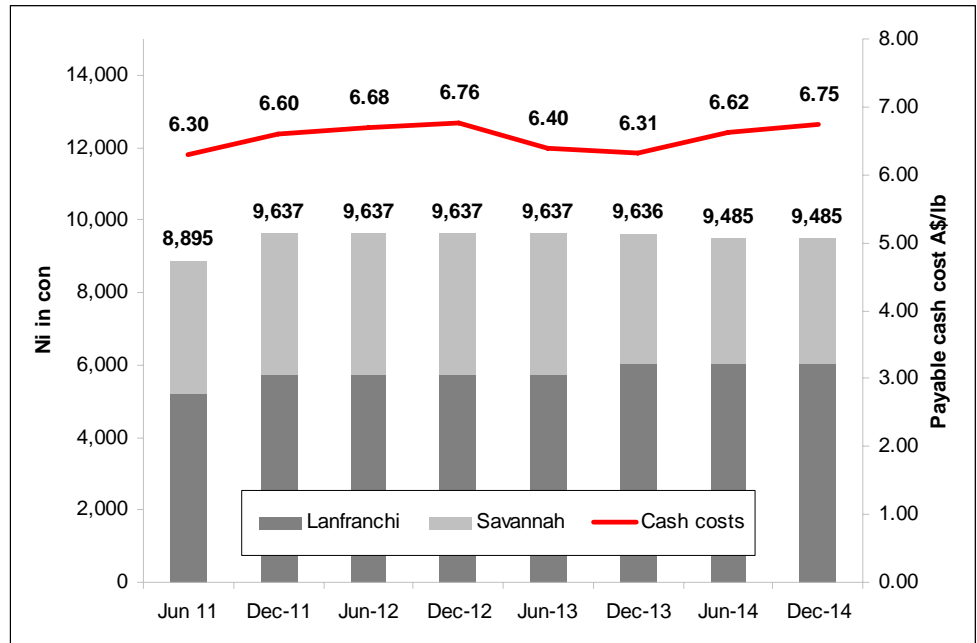
### Exploration potential at Lanfranchi and Gidgee

- PAN continues to enjoy exploration success around the Lanfranchi nickel mine. Recent exploration activity has returned significant mineralised widths at both Helmut South and Cruickshank with pending maiden resources.
- A maiden resource for Helmut South is expected by May, with recent results including; 8.1m @ 5.25% Ni and 8.8m @ 6.35% Ni. Production at Helmut South was wound back following ore depletion. However, resource delineation could result in mining resuming relatively quickly should a sizeable economic resource be defined.
- Drilling at Cruickshank, has also returned significant mineralised widths including; 13.3m @ 2.0% Ni and 18.7m @ 2.2%Ni. PAN expects to deliver a maiden Cruickshank resource by April.
- The recently acquired Gidgee Gold project highlights PAN's desire to grow and diversify its commodity exposure. Gidgee has an existing 310koz JORC resource, which was estimated at a low US\$500-600/oz cut-off price. This suggests potential for an immediate resource upgrade through re-estimation of the resource with a higher cut-off price. In addition, Apex Minerals estimated the non-JORC resource at over 500koz Au.
- PAN is targeting a Gidgee reserve of 3mt @ 5.0 g/t Au for 500koz ahead of developing a mine plan for the recommissioning of the 600kt pa Gidgee processing plant. This could support a c100koz Au pa operation over 5 years.

### Growing production base to 25kt Ni

- PAN is targeting group production from Lanfranchi and Savannah of 25kt Ni.
- We view the target as largely conceptual at this stage and dependent on further exploration success at and in the vicinity of both mines. We continue to model peak group production of 20kt Ni at this stage.

Year to June	NPAT (Rep) \$M	NPAT (PSig) \$M	EPS (PSig) c	EPS Growth %	PER x	CFPS c	P/CF x	DPS c	Div Yld %	Franking %
2010a	56.2	51.2	24.5	113.1	9.4	64.9	3.5	16.5	7.2	100
2011e	48.5	44.8	21.4	-12.7	10.7	28.7	8.0	11.0	4.8	100
2012e	118.3	118.3	56.4	164.0	4.1	76.9	3.0	29.0	12.6	100
2013e	135.3	135.3	64.5	14.4	3.6	80.8	2.8	35.0	15.3	100

**PAN group nickel production and cash cost profile**

Source: Wilson HTM

**Targeting 25kt Ni production through step change initiatives**

PAN has revised its targeted production guidance to 25kt Ni. We see this target as largely conceptual at this stage as the forecast is dependent on further exploration success at and in the vicinity of both mines.

The most likely near term source of additional production will be from a possible re-start of the Copernicus underground mine, located 50km from Savannah. The Copernicus project is under care and maintenance and PAN has an 60% interest in the mine with Thundelarra. The operation is undergoing a feasibility study to assess the economics of restarting the mine with the mined ore to be trucked to the Savannah mill. Copernicus is only likely to add ~1ktpa of Ni production net to PAN.

The Savannah mill has spare capacity to process the Copernicus ore. The mill is operating at a nominal throughput rate of ~650kt pa with capacity of 900ktpa. Given that Copernicus was previously mined, the capital expenditure to get the mine back into operation would likely be minimal. Moreover, the Savannah mill is operating on a 2 weeks on 1 week off schedule and increasing throughput would only require the addition of another work crew with minimal additional fixed costs. Increasing mining capacity at Savannah would likely be difficult, due to already cramped and tight working conditions. We therefore see limited potential for the Savannah mine to expand beyond the ~8kt pa Ni rate.

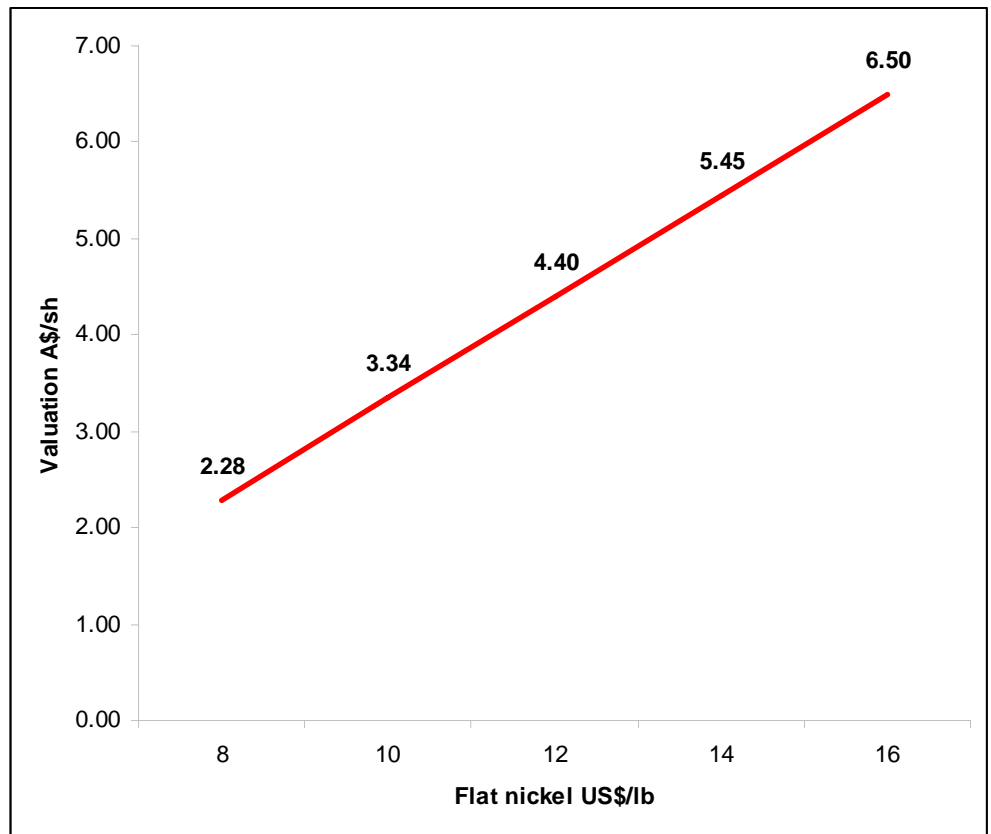
Exploration targets include the regional areas around the Savannah mine (2-3km), for which recent geophysical exploration has defined several anomalies akin to that of Savannah. These targets are at a very early stage and we expect follow up drilling to begin this quarter. Recent drilling at Cruickshank near the Lanfranchi mine is expected to lead to a resource estimate by April. However, the ore is low grade (~1.7% Ni) and the economics of the ore will be dependent on BHP's willingness to accept the ore (see page 5).

There is production growth potential at several targets surrounding Lanfranchi, including the Schmitz and Helmut channels. Recent drill results from Helmut South have been very encouraging and PAN expects to release a resource estimate by May. Helmut South is in close proximity to the underground operations at Lanfranchi and this step change would likely only require minimal development to access potentially economic ore (see page 5).

Based on these opportunities and limitations, we view the targeted 25kt Ni production target as conceptual. We continue to forecast unchanged peak group production of 19.3kt Ni at this stage.

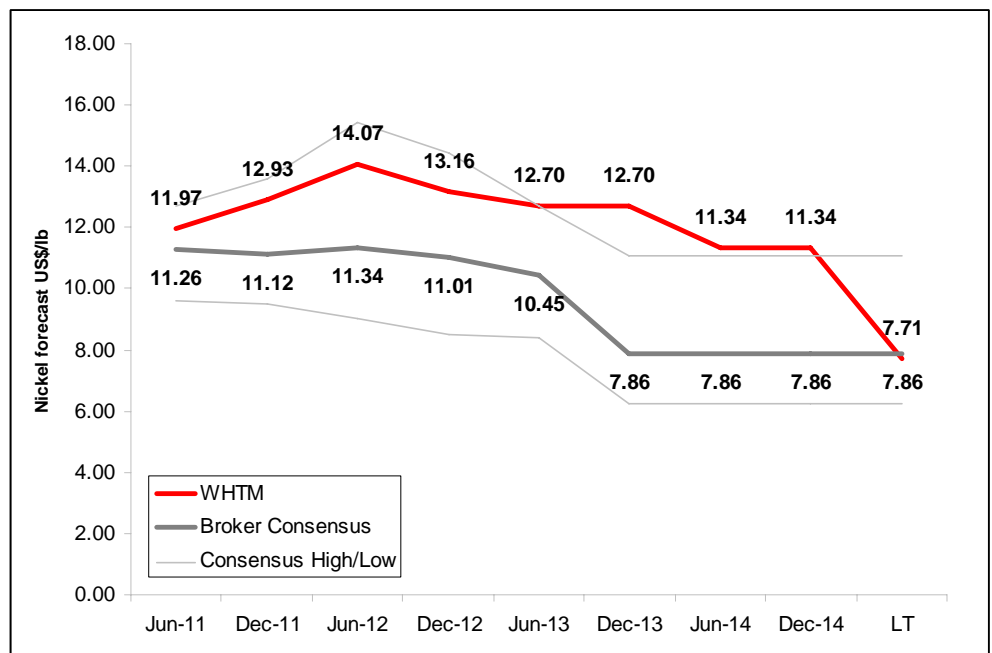


### PAN nickel sensitivity



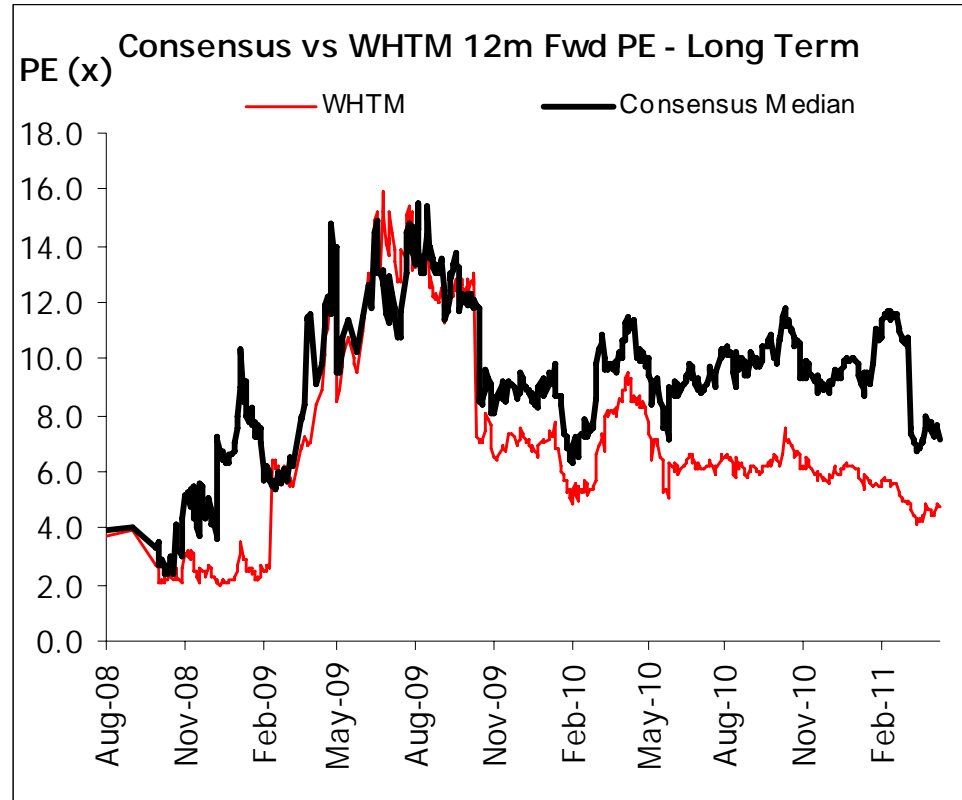
Source: Wilson HTM

### Nickel price forecasts – WHTM v Broker Consensus



Source: Wilson HTM

We note that our \$3.81/sh target price is higher than the current market consensus, as per IRESS, of \$3.08/sh. Based on the above chart, we attribute much of this difference to our higher than consensus forecast for nickel prices over the near term. Our long-term nickel price forecast emulates broker consensus. If we employ the broker consensus price deck, our target price reduces to \$2.84/sh, which still reveals PAN as substantially undervalued.



Source: Wilson HTM

The above 12m Fwd PE chart illustrates that PAN is currently trading at the lower bound of its typical PE trading range, on both consensus and WHTM estimates.

Since the beginning of 2010, PAN has traded with a median consensus PE multiple of between 6.2-11.8x with an average 9.4x and last at 7.2x.

Our current forecasts indicate a 12m Fwd PE multiple of 4.1x, and compares to the average WHTM multiple since the beginning of 2010 of 6.2x. When applying a 6.2x multiple to our forecast FY2012 EPS of \$0.564, we derive a target price of \$3.49/sh. Our DCF target price is \$3.81/sh.

### Helmut South drill data

Meters	Ni (%)
0.75	4.7
2.10	3.6
6.47	4.7
17.57	2.0
9.20	3.4
2.97	6.8
5.61	5.8
4.85	5.4
8.10	5.3
8.60	6.5
8.83	6.4
5.16	5.7
5.15	6.1
<b>Average intercept</b>	
<b>6.57</b>	<b>4.71</b>

Based on recent drilling data from Helmut South, we estimate a weighted average intercept of 6.57m @ 4.71% Ni. PAN has suggested potential for a 200m strike with a 300m plunge. In conjunction with the average widths and grades, we see potential for a global Helmut South resource of up to +40kt of Ni, the amount that would be potentially economic remains unclear. Nevertheless, the potential size of Helmut South could be material and contribute to increased Lanfranchi production and mine life.

The key economic benefit of Helmut South is its direct proximity to current underground operations at Lanfranchi, which could result in development capital, including access drives, being at a minimum.

A resource estimate is expected in May.

Source: PAN, Wilson HTM

### Cruickshank drill data

Meters	Ni (%)
16.50	2.1
9.00	1.2
4.60	1.2
4.20	1.5
5.10	2.0
7.80	1.6
9.50	1.8
2.45	1.9
1.45	1.0
8.60	1.8
5.45	1.4
6.98	1.8
4.60	2.0
12.00	1.1
2.00	2.1
2.00	1.2
3.40	1.0
4.50	1.4
5.00	1.3
4.55	1.5
2.70	3.1
7.00	1.7
8.60	1.1
6.30	2.1
13.25	2.0
18.70	2.2
<b>Average intercept</b>	
<b>6.78</b>	<b>1.71</b>

Drilling at Cruickshank is on going with initial results (left) returning significant mineralised widths, albeit the grades are markedly below that found at Helmut South.

Although at an early stage, mineralisation is evident below 50m of cover, which suggests potential for the ore to be mined by open pit. However, the most likely scenario is for an underground operation.

The Cruickshank ore will need to be treated, similar to the Lanfranchi ore, at BHP's neighbouring 1.9mtpa mill. Given the low grade ore at Cruickshank, there is a risk that the ore may not be of economic interest to BHP given its low ~1.7% Ni content.

The economics of the Cruickshank deposit are likely dependent on BHP being amenable to off-take of the lower grade ore. Lanfranchi mine ore is however understood to be the preferred ore in the region due to its low Fe:Ni ratio. It remains to be seen whether Cruickshank ore also exhibits this characteristic.

An updated resource estimate is expected in April.

Source: PAN, Wilson HTM



### **Gidgee gold project**

Following the recent acquisition of the Gidgee Gold Project from Apex Minerals, PAN remains in the process of a full review.

The primary focus is the reinterpretation of the existing resource of 8mt @ 5.2 g/t Au for 310koz Au. We can expect that given the low cut-off price used in the estimation of the existing resource of ~US\$500-600/oz, that a reinterpretation with higher cut-off price will likely lead to a marked increase to the resource. Moreover, there is a separate non-JORC resource estimated by previous project owner Apex Minerals of 500koz Au.

PAN is targeting a 500koz Au reserve @ 5 g/t Au, which could support an open pit or underground operation producing c100koz Au pa for five years.

The Gidgee project was last mined in 2003 and was closed due to low gold prices. We understand that due to minimal expenditure by the previous owners on care and maintenance, that the plant is now in a poor condition and likely to require additional capital to replace various components including corroded steel.

There is no timeframe for the restart of the Gidgee project at this stage. However, we anticipate a formal evaluation of the exact condition of the plant and a reinterpretation of the resource to commence in the June quarter.

### **Drake Resources exploration alliance - Scandinavia**

Recent exploration works at 2 key projects in Finland have highlighted 9-10 drill targets to be tested in the June quarter. The total exploration budget is estimated at \$1.5m. PAN has an effective 50% interest in the project.



## Outlook for the nickel market

Since the beginning of 2011, the nickel price has rallied sharply from around US\$11.0/lb to just over US\$13.00/lb but has fallen back to just over US\$12.00/lb.

During this period, LME inventories have fallen from approximately 135,400 tonnes to now 121,750 tonnes.

In our view, the price increase and LME stock decrease reflect improved market fundamentals.

On the supply side, the expected loss of ~15kt finished nickel at Vale's Copper Cliff plant in 2011 has restored balance to the market, while on the demand side, the International Stainless Steel Federation's (ISSF) latest figures are encouraging for the industry with the final quarter of 2010 seeing global production registering a 14.1% yoy gain and a 3.4% qoq increase to 7.465Mt. Output reached a new high in 2010 of +30Mt. Vale will also shut down one of two furnaces at PT Inco Indonesia for around six months, with a further loss of 7,000 tonnes nickel in 2011.

For 2011, ThyssenKrupp is projecting global growth in stainless steel demand of 5%. Outokumpu is indicating that lead times for stainless steel supply have moved out to 8-10 weeks with similar views being expressed by Spanish stainless producer, Acerinox.

Notwithstanding the above optimistic outlook, potential exists for sharply higher nickel output in 2011. At current nickel prices, Chinese nickel pig iron production is likely to remain robust, although high coking coal prices may act as a limiting factor. Canadian nickel output is likely to receive a boost due to the end of strikes at Sudbury and Voisey's Bay, while Brazil is expected to see a boost to Fe-Ni output. In addition, there is always the possibility that new HPAL (high pressure acid leach) project production surprises to the upside.

On balance, we see the average nickel price in 2011 as being sharply higher than 2010 at US\$12.48/lb compared with the 2010 average of US\$9.86/lb.

In the medium term, there are a number of both greenfield and brownfield projects expected to come on line that could collectively add 25% to global nickel supply. However, many of these projects are based on the processing of nickel laterite ores and hence this additional supply is susceptible to the underperformance of HPAL technology.

Thus while the nickel market could become oversupplied, we see the more likely scenario as being that deficit conditions will prevail over the next few years with the market fundamentals supporting a price in the US\$12-14.00/lb range over the next few years.

## Upcoming price sensitive announcements

Expected date	Event
April	Cruickshank resource update
May	Helmut South resource update We look for ~50kt Ni @ 4.7% Ni

Source: PAN, Wilson HTM

**PAN group nickel reserve statement**

	<b>Tonnes (m)</b>	<b>Ni (%)</b>	<b>Cu (%)</b>	<b>Co (%)</b>	<b>Ni (kt)</b>	<b>Cu (kt)</b>	<b>Co (kt)</b>
<b>Savannah</b>							
Upper	1.61	1.26	0.61	0.06	20.2	9.8	1.0
Lower	3.69	1.17	0.64	0.06	43.2	23.6	2.2
<b>Copernicus</b>	0.22	1.03	0.63	0.04	2.3	1.4	0.1
<b>Lanfranchi</b>							
deacon	2.04	2.42			49.4	0.0	0.0
helmut south	0.03	1.94			0.5	0.0	0.0
lanfranchi	0.09	3.11			2.9	0.0	0.0
schmitz	0.09	2.66			2.3	0.0	0.0
<b>Total</b>	<b>7.77</b>	<b>1.56</b>	<b>0.45</b>	<b>0.04</b>	<b>120.8</b>	<b>34.8</b>	<b>3.3</b>

Source: PAN

**PAN group nickel resource statement**

	<b>Tonnes (m)</b>	<b>Ni (%)</b>	<b>Cu (%)</b>	<b>Co (%)</b>	<b>Ni (kt)</b>	<b>Cu (kt)</b>	<b>Co (kt)</b>
<b>Savannah</b>	5.41	1.54	0.78	0.08	83.3	42.2	4.3
<b>Copernicus</b>	0.49	1.23	0.82	0.04	6.0	4.0	0.2
<b>Lanfranchi</b>							
Cruikshank	2.17	1.23			26.6	0.0	0.0
Deacon	1.94	2.88			55.9	0.0	0.0
Gigantus	1.00	1.34			13.4	0.0	0.0
Helmut South	0.10	2.73			2.6	0.0	0.0
John	0.61	1.08			6.5	0.0	0.0
Lanfranchi	0.08	5.67			4.5	0.0	0.0
Martin	0.05	3.83			1.9	0.0	0.0
McComish	1.01	1.47			14.9	0.0	0.0
Schmitz	0.08	4.73			3.7	0.0	0.0
Winner	0.01	4.4			0.6	0.0	0.0
Remnants	0.47	2.4			11.2	0.0	0.0
<b>Total</b>	<b>13.41</b>	<b>1.72</b>	<b>0.34</b>	<b>0.03</b>	<b>231.2</b>	<b>46.2</b>	<b>4.5</b>

Source: PAN

## Panoramic Resources Limited (PAN : \$2.29)

## PRODUCTION

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Contained Nickel (kt)	17.4	17.4	17.1	19.3	19.3
Contained Copper (kt)	5.0	4.9	4.6	5.1	5.1
Contained Cobalt (kt)	0.4	0.4	0.4	0.4	0.4

## PRICES

Yr Ending June	2009A	2010A	2011E	2012E	2013E
AUDUSD (USD)	0.75	0.88	0.98	0.97	0.92
Nickel (US\$/lb)	6.13	8.81	11.07	13.50	12.93
Copper (US\$/lb)	2.08	2.42	3.98	5.27	4.65
Cobalt (US\$/lb)	21.90	20.52	18.56	17.50	15.00

## INVESTMENT &amp; VALUATION FUNDAMENTALS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EPS Before Abs (c)	11.5	24.5	21.4	56.4	64.5
EPS Growth (%)	N/A	113.1%	-12.7%	164.0%	14.4%
PER (x)	20.0	9.4	10.7	4.1	3.6
CFPS (c)	16.1	64.9	28.7	76.9	80.8
P/CF (x)	14.3	3.5	8.0	3.0	2.8
EV/EBITDA (x)	5.3	3.5	3.8	1.4	0.8
DPS (c)	3.0	16.5	11.0	29.0	35.0
Yield (%)	1.3%	7.2%	4.8%	12.6%	15.3%
Franking (%)	100%	100%	100%	100%	100%

## DCF VALUATION

Yr Ending June	@	10.5 %		10 %	
		A\$m	A\$ps	A\$m	A\$ps
Savannah		206.8	0.99	209.1	1.00
Lanfranchi		289.5	1.38	292.8	1.39
Gidjee Gold Project		32.9	0.16	32.9	0.16
Corporate Costs Capitalised		-37.3	-0.18	-37.8	-0.18
Hedge Book		-4.9	-0.02	-4.9	-0.02
Interests - Other Entities		13.8	0.07	13.8	0.07
Exploration/Dev Portfolio		73.4	0.35	73.4	0.35
Franking Credits		103.9	0.49	105.2	0.50
Cash		107.7	0.51	107.7	0.51
Interest Bearing Liabilities		-3.0	-0.01	-3.0	-0.01
Minorities		0.0	0.00	0.0	0.00
Additional Capital - Dilution		3.9	0.02	3.9	0.02
Total Valuation - Diluted		786.7	3.75	793.2	3.78

## PROFITABILITY RATIOS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
EBIT / Sales (%)	14.5%	25.1%	26.4%	57.9%	63.4%
ROA (%)	N/A	20.4%	17.1%	50.7%	63.3%
ROE (%)	N/A	17.7%	14.7%	33.2%	31.4%
ROFE (%)	N/A	29.1%	25.5%	76.8%	100.7%

## INTERIMS (\$m)

Half Yr	Dec 09	Jun 10	Dec 10	Jun 11	Dec 11
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	132.2	151.2	125.8	103.2	134.2
EBIT	32.0	39.2	18.7	41.7	72.9
Net Profit	23.1	33.1	17.6	30.9	52.7
EPS	11.3	13.2	6.6	14.7	25.1

## BALANCE SHEET (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Cash	50.0	49.8	92.2	201.6	301.6
Total Assets	380.3	416.8	430.2	505.2	576.3
Debt	6.6	4.7	3.0	3.0	3.0
Total Liabilities	94.0	125.7	113.2	111.2	109.2
Total Shareholders Equity	286.3	291.1	317.1	394.0	467.1
Total Funds Employed	242.9	246.1	227.8	195.4	168.4

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Debt / Equity (%)	2.3%	1.6%	0.9%	0.8%	0.6%
Gearing (%) <sup>1</sup>	2.2%	1.6%	0.9%	0.7%	0.6%
Interest Cover (x)	33.5	4,183.8	-11.7	-27.3	-18.0
Debt / CashFlow (x)	0.2	0.0	0.0	0.0	0.0
(Debt+CNNotes) / CashFlow	0.1	0.0	0.0	0.0	0.0

## PROFIT &amp; LOSS (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Sales Revenue	225.1	283.4	229.0	281.5	288.6
EBITDA	82.2	123.8	103.6	208.2	219.4
Depn and Amortisation	49.5	52.7	43.2	45.1	36.2
EBIT	32.7	71.1	60.4	163.0	183.1
Net Interest Expense	1.0	0.0	-5.2	-6.0	-10.2
Pre-tax Profit	31.7	71.1	65.6	169.0	193.3
Tax	7.8	19.9	20.8	50.7	58.0
Tax rate (%)	24.6%	28.0%	31.7%	30.0%	30.0%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	23.9	51.2	44.8	118.3	135.3
Abnormals	-18.3	5.0	3.6	0.0	0.0
Reported Net Profit	5.6	56.2	48.5	118.3	135.3

## CASHFLOW (\$m)

Yr Ending June	2009A	2010A	2011E	2012E	2013E
Operating Cash Flow	33.5	135.8	60.3	161.5	169.5
Capital Expenditure	-15.7	-8.1	-23.9	-3.7	-1.3
Expln, Develop, Evaln	-44.8	-26.9	-29.5	-7.0	-6.0
Asset Sales/Acquisitions	0.0	-5.7	-23.7	0.0	0.0
Other	-17.8	-65.9	79.9	0.0	0.0
Investing Cash Flow	-78.4	-106.6	2.8	-10.7	-7.3
Share Issues/(Buybacks)	0.2	0.6	2.7	0.0	4.5
Debt Drawdown (Repay)	-4.7	-5.4	-1.8	0.0	0.0
Dividends Paid	-11.5	-24.6	-21.6	-41.4	-66.7
Other Fin. Flows	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-16.1	-29.4	-20.7	-41.4	-62.2
Cash Increase (Decrease)	-60.9	-0.2	42.4	109.4	100.1

## EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2009A	2010A	2011E	2012E	2013E
+/- 1c Movement US\$/A\$	0.0	0.0	4.0	2.8	2.3
+/-10% Ni Price Change	0.0	0.0	25.8	16.9	17.3
+/-10% Change In Costs	0.0	0.0	24.3	9.2	7.7

1. Gearing = (Debt + CNotes) / (Debt + CNotes + Equity)



## Recommendation Structure

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

## Other definitions

CS Coverage Suspended. Wilson HTM Ltd has suspended coverage of this company.

NR Not Rated. The recommendation has been suspended temporarily. Such suspension is in line with Wilson HTM Investment Group Ltd policies in circumstances where Wilson HTM Corporate Finance Ltd is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations.

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