

6 Apr 2018

AUSTRALIAN POTASH LIMITED (APC)

First SOP samples on track for production Q2 CY18

Australian Potash Limited (APC) remains committed to progressing the 100%-owned Lake Wells Potash Project in WA. In late CY17, the Company commissioned pilot solar evaporation ponds at the salt lake system from brines sourced from test production bores.

The first sulphate of potash (SOP) samples from these pilot ponds remain on track to be produced in Q2 CY18. The maiden SOP production will assist in advancing the off-take discussions with Chinese partners and provide valuable information for the evaporation model under which the commercial ponds will operate. The data collected from both the test pumping and evaporation ponds will be used in the Lake Wells Feasibility Study (FS) due for release H2 CY18. The information collected from the longer term test pumping program will assist with the calculation of (maiden) reserves.

Once developed, the brine operation at Lake Wells is expected to be serviced by some 35 bores, enabling the production of 150,000tpa of SOP (Stage 1). APC has already confirmed a continuous layer of low-permeability clays across the lake, which supports lower potential pre-production capex and importantly reduces sustaining capex further enhancing project economics. Current permeability assumptions result in a potassium recovery through the pond system of ~76-77% and an overall pond and process recovery of 71-72% and with the proposed MOP conversion circuit in the process plant, the overall recoveries of the ponds and plant should improve to ~80%.

APC has been working diligently on the permitting and approvals process. APC's Lake Wells SOP development area does not have any Native Title claims over it and the mining licence application has been recommended for grant. The Environmental Protection Authority (EPA) will assess the project development under environmental review, without the need of public comment, which could see final ministerial approval to proceed in H2 CY18.

Accessing the gold value proposition of Yamarna

First pass drilling (an aircore program for 23,000m over 3 stages) has commenced over the Yamarna gold project (100% APC). The initial program will drill-test a number of structural and geochemical targets generated by reviews by external experts (CSA Global and Dr Scott Halley).

Five of the highest priority targets (T07-011 from Area 1) are located along strike and within a few kilometres of Gold Road's (GOR) Corkwood gold camp (Ibanez, Stratocaster, Washburn, and Gibson prospects). This target area also reports coincident arsenic-in-soils anomalism and will be the first targets tested in the current program. APC has some 12 targets already identified with more expected to be generated from the +65km structural setting.

There is no doubting some of APC's tenure (north-east of Laverton) is highly prospective but unexplored for gold mineralisation and neighbour GOR's results have already upgraded the region. It seems a sensible approach to add value before considering options for the gold project.

We maintain our Speculative Buy recommendation; 36cps PT

We maintain our Speculative Buy recommendation with latest price target of 36cps. APC's current cash position is low, estimated to be ~A\$1.2M, with additional funding needed for ongoing exploration and development studies.

Share Price	\$0.100
Valuation	\$0.40
Price Target (12 month)	\$0.36

Brief Business Description:
Potash (SOP) explorer/developer

Hartleys Brief Investment Conclusion
100%-owned potash project at Lake Wells WA. Targeting brine SOP production of 150ktpa ramping up to 300ktpa for domestic and export markets. Feasibility Study due in H2 CY18. Gold exploration also underway.

Board

Matt Shackleton (Executive Chairman)

Rhett Brans (Non-Exec Dir)

Brett Lambert (Non-Exec Dir)

Top Shareholders

Yandal Investments (Creasy)	11.1%
Perth Select Seafood	5.3%
Board and Management	2.0%

Company Address

31 Ord Street
West Perth WA 6005

Issued Capital 261.9m

- fully diluted 333.5m

Market Cap A\$26.2m

- fully diluted A\$33.4m

Cash (est) A\$1.2m

Debt (est) A\$0.0m

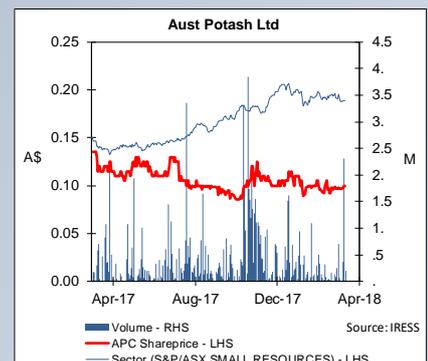
EV A\$25.0m

EV/Resource t A\$1.70/t

EV/Reserve t na

	Prelim. (A\$m)	FY19e	FY20e	FY21e
Prod (Mt)	0.00	0.08	0.15	
Op Cash Flw	-3.7	27.1	40.7	
Norm NPAT	-8.0	32.8	35.8	
CF/Share (cps)	-1.0	3.1	4.3	
EPS (cps)	-1.3	4.1	5.5	
P/E	-9.9	3.2	2.3	

	Vol M CM	SOP mg/L	M t SOP
Resources (SOP)	20,329	7,896	14.7
Reserves (SOP)	na	na	na



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Resources Analyst

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Hartleys has completed a capital raising in the past 12 months for Australian Potash Limited ("APC") for which it has earned fees. Hartleys has provided corporate advice to APC within the past 12 months and continues to provide corporate advice, for which it will earn fees. Hartleys has a beneficial interest in 5 million Australian Potash unlisted options. The analyst has a beneficial interest in APC shares.

SUMMARY MODEL

Australian Potash Limited APC							Share Price \$0.100	
Key Market Information								
Share Price	A\$							\$0.100
Market Capitalisation - ordinary	A\$							\$26.2m
Net Debt (cash)	A\$							-\$1m
Market Capitalisation - fully diluted	A\$							\$33.4m
EV	A\$							\$19.1m
Issued Capital	A\$							261.9m
Options	A\$							71.7m
Issued Capital (fully diluted inc. all options)	A\$							333.5m
Issued Capital (fully diluted inc. all options and new capital)	A\$							913.5m
Valuation	A\$							\$0.40
12month price target	A\$							\$0.36
P&L	Unit	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 21	
Net Revenue	A\$m	0.4	0.0	0.0	60.9	120.4		
Total Costs	A\$m	-7.2	-7.2	-6.3	-30.8	-60.4		
EBITDA	A\$m	-6.8	-7.2	-6.3	30.1	60.1		
- margin		-	-	-	49%	50%		
Depreciation/Amort	A\$m	-0.1	0.0	-2.5	-7.0	-9.7		
EBIT	A\$m	-6.8	-7.2	-8.8	23.0	50.3		
Net Interest	A\$m	0.0	0.6	2.6	2.2	0.8		
Pre-Tax Profit	A\$m	-6.8	-6.5	-6.2	25.2	51.1		
Tax Expense	A\$m	0.0	0.0	0.0	0.0	-15.3		
Normalised NPAT	A\$m	-8.9	-8.5	-8.0	32.8	35.8		
Abnormal Items	A\$m	2.0	2.0	1.8	-7.6	0.0		
Reported Profit	A\$m	-6.8	-6.5	-6.2	25.2	35.8		
Minority	A\$m	0.0	0.0	0.0	0.0	0.0		
Profit Attrib	A\$m	-6.8	-6.5	-6.2	25.2	35.8		
Balance Sheet	Unit	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 21	
Cash	A\$m	2.0	21.0	73.4	5.9	24.0		
Other Current Assets	A\$m	0.2	0.0	0.0	5.9	11.7		
Total Current Assets	A\$m	2.2	21.0	73.5	11.9	35.7		
Property, Plant & Equip.	A\$m	0.1	0.1	85.1	169.6	167.9		
Exploration	A\$m	0.0	5.0	8.0	11.0	13.0		
Investments/other	A\$m	0.0	0.0	0.0	0.0	0.0		
Tot Non-Curr. Assets	A\$m	0.1	5.1	93.1	180.6	180.9		
Total Assets	A\$m	2.3	26.1	166.6	192.5	216.6		
Short Term Borrowings	A\$m	-	-	-	-	-		
Other	A\$m	2.6	0.3	0.2	1.0	2.0		
Total Curr. Liabilities	A\$m	2.6	0.3	0.2	1.0	2.0		
Long Term Borrowings	A\$m	-	-	88.4	75.8	63.2		
Other	A\$m	-	-	-	-	-		
Total Non-Curr. Liabil.	A\$m	-	-	88.4	75.8	63.2		
Total Liabilities	A\$m	2.6	0.3	88.7	76.8	65.1		
Net Assets	A\$m	-0.3	25.8	77.9	115.7	151.5		
Net Debt	A\$m	-2.0	-21.0	15.0	69.8	39.1		
nd / nd + e		86.9%	-431.5%	16.1%	37.7%	20.5%		
Cashflow	Unit	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 21	
Operating Cashflow	A\$m	-4.0	-9.3	-6.3	24.9	55.2		
Income Tax Paid	A\$m	0.0	0.0	0.0	0.0	-15.3		
Interest & Other	A\$m	0.0	0.6	2.6	2.2	0.8		
Operating Activities	A\$m	-4.0	-8.7	-3.7	27.1	40.7		
Property, Plant & Equip.	A\$m	-0.1	0.0	-87.5	-91.5	-8.0		
Exploration and Devel.	A\$m	0.0	-5.0	-3.0	-3.0	-2.0		
Other	A\$m	0.0	0.0	0.0	0.0	0.0		
Investment Activities	A\$m	-0.1	-5.0	-90.5	-94.5	-10.0		
Borrowings	A\$m	0.0	0.0	88.4	-12.6	-12.6		
Equity or "tbc capital"	A\$m	5.9	32.7	58.3	12.5	0.0		
Dividends Paid	A\$m	0.0	0.0	0.0	0.0	0.0		
Financing Activities	A\$m	5.6	32.7	146.7	-0.1	-12.6		
Net Cashflow	A\$m	1.5	19.0	52.5	-67.5	18.1		
Shares	Unit	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 21	
Ordinary Shares - End	m	221	433	786	836	836		
Ordinary Shares - Weighted	m	203	327	610	811	836		
Diluted Shares - Weighted	m	169	258	541	743	768		
Ratio Analysis	Unit	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 21	
Cashflow Per Share	A\$ cps	-2.0	-2.6	-0.6	3.3	4.9		
Cashflow Multiple	x	-5.1	-3.8	-16.4	3.0	2.1		
Earnings Per Share	A\$ cps	-3.4	-2.0	-1.0	3.1	4.3		
Price to Earnings Ratio	x	-3.0	-5.0	-9.9	3.2	2.3		
Dividends Per Share	AUD	-	-	-	-	-		
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%		
Net Debt / Net Debt + Equity	%	82.5%	-431%	16%	38%	21%		
Interest Cover	X	47.5	11.4	3.4	na	na		
Return on Equity	%	3004%	na	na	28%	24%		
Directors							Company Information	
Matt Shackleton (Executive Chairman)							31 Ord Street	
Rhett Brans (Non-Exec Dir)							West Perth WA 6005	
Brett Lambert (Non-Exec Dir)							+61 8 9322 1003	
Leigh-Ayn Absolom (Company Secretary)								
Carsten Kraut (Hydrogeologist)								
Alan Rubio (Proj Man)							www.australianpotash.com.au	
Shaun Triner (Process Man)								
Top Shareholders							m shares	% ord
Yandal Investments (Creasy)							29.0	11.1%
Perth Select Sealfood							14.0	5.3%
Board and Management							5.2	2.0%
Reserves & Resources	Vol MCM	Yield	Brine Vol	K (mg/L)	SOP (mg/L)	SOP Mt		
TOTAL RESERVES	-	-	-	-	-	-		
Measured	-	-	-	-	-	-		
Indicated	17,050	9%	1,521	3,707	8,267	12.7		
Inferred	3,279	10%	340	2,674	5,963	2.1		
TOTAL RESOURCES	20,329	9%	1,861	3,541	7,896	14.7		
Production Summary	Unit	Jun 19	Jun 20	Jun 21	Jun 22			
Mill Throughput	Mt	-	0.08	0.15	0.15			
Potash equiv	Mt	-	0.08	0.15	0.15			
Potash equiv (Attrib)	Mt	-	0.08	0.15	0.15			
Potash (SOP)	Mt	-	0.08	0.15	0.15			
NaCl (Industrial)	Mt	-	0.00	0.00	0.00			
NaCl (De-icing)	Mt	-	0.00	0.00	0.00			
Conversion of resources not in reserves	%	-	-	-	-			
Mine Life	yr	20.0	19.8	18.8	17.8			
Costs	Unit	Jun 19	Jun 20	Jun 21	Jun 22			
Cost per processed tonne	\$/t	-	390.0	390.0	390.0			
EBITDA / tonne processed ore	\$/t	-	400.8	400.4	392.5			
Total cash costs	\$/t equiv.	-	410.8	402.5	405.0			
Total cash costs	\$/t equiv.	-	313.4	310.8	314.9			
- ex shipping	\$/t equiv.	-	298.2	295.4	299.3			
C1: Operating Cash Cost = (a)	\$/t equiv.	-	390	390	390			
- ex shipping	\$/t equiv.	-	370	370	370			
(a) + Royalty = (b)	\$/t equiv.	-	390	390	390			
C2: (a) + depreciation & amortisation = (c)	\$/t equiv.	-	484	455	458			
(a) + actual cash for development = (d)	\$/t equiv.	-	1,650	457	457			
C3: (c) + Royalty	\$/t equiv.	-	484	455	458			
(d) + Royalty	\$/t equiv.	-	1,650	457	457			
C1: Operating Cash Cost = (a)	\$/t equiv.	-	298	301	303			
- ex shipping (mine gate)	\$/t equiv.	-	282	286	288			
Price Assumptions	Unit	Jun 19	Jun 20	Jun 21	Jun 22			
AUDUSD	A\$/US\$	0.76	0.76	0.77	0.78			
Potash (SOP)	US\$/t	620	620	620	620			
NaCl (industrial)	US\$/t	90	90	90	90			
NaCl (de-icing)	US\$/t	60	60	60	60			
Hedging		Jun 19	Jun 20	Jun 21	Jun 22			
Hedges maturing?	No	No	No	No	No			
Sensitivity Analysis							Valuation	
Base Case							0.40	
Spot Prices							0.30 (-26.5%)	
Spot USD/AUD 0.77, SOP US\$550/t.								
AUDUSD +/-10%							0.31 / 0.52 (-23.6% / 28.9%)	
SOP +/-10%							0.51 / 0.30 (26.0% / -26.0%)	
Production +/-10%							0.50 / 0.30 (25.3% / -25.3%)	
Operating Costs +/-10%							0.36 / 0.45 (-11.3% / 11.3%)	
Unpaid Capital								
Year Expires	No. (m)	\$m	Avg price	% ord				
30-Jun-18	0.0	0.0	0.0	0%				
30-Jun-19	14.0	2.0	0.1	5%				
30-Jun-20	48.3	9.7	0.2	18%				
30-Jun-21	9.4	1.4	0.2	4%				
30-Jun-22	0.0	0.0	0.0	0%				
TOTAL	71.7	13.1	0.18	27%				
Share Price Valuation (NAV)							Riskd Est. A\$m	Est. A\$/share
100% Lake Wells (pre-tax NAV at disc. rate of 12%)							428.2	0.47
Other Exploration							40.0	0.04
Forwards							0.0	0.00
Corporate Overheads							-14.1	-0.02
Net Cash (Debt)							1.2	0.00
Tax (NPV future liability)							-89.0	-0.10
Options & Other Equity							0.0	0.00
Total							366.3	0.40
Analyst: Mike Millikan							Last Updated: 06/04/2018	
+61 8 9268 2805								
*tbc capital" could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.								
Sources: IRESS, Company Information, Hartleys Research								

YAMARNA GOLD PROJECT

NEIGHBOUR'S GOLD RESULTS UPGRADE GROUND

Key gold ground is also situated ~60km NW of the +6Moz Gruyere gold project (under construction) and spans a 65km structural zone

First pass (aircore) drilling has now commenced

It seems a sensible approach to add value before considering options for the gold project

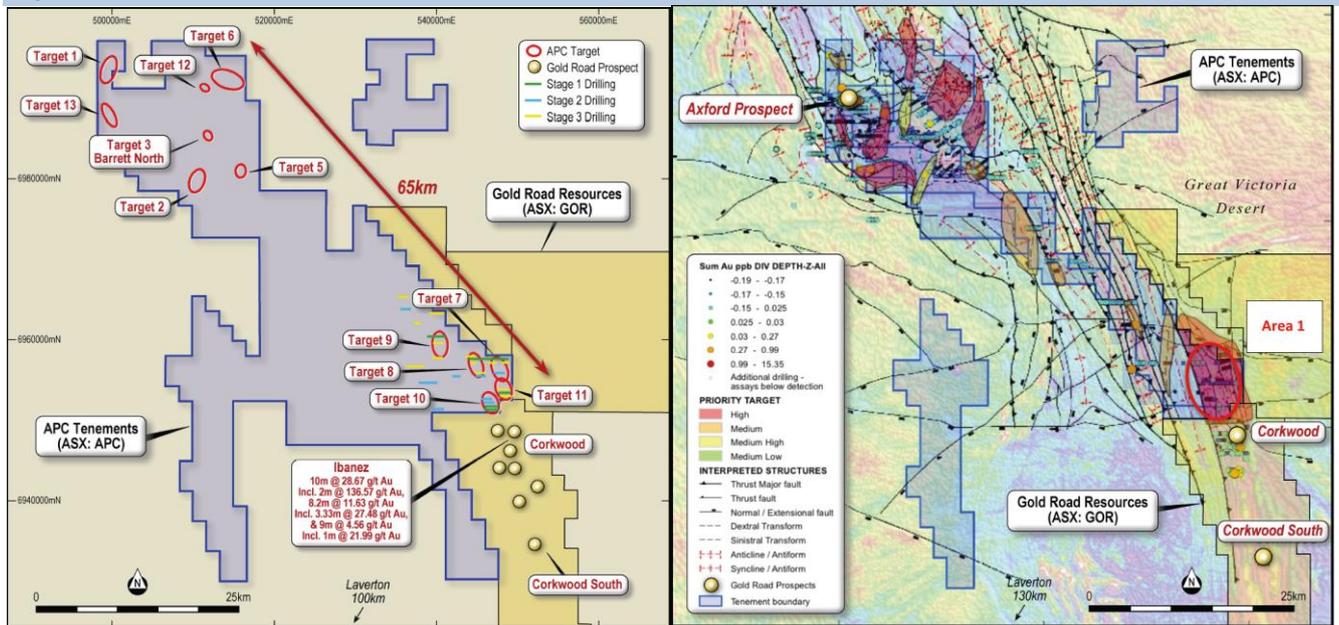
APC's ground holdings are located north-east of Laverton and as well as containing SOP, some of the tenure is considered highly prospective but unexplored for gold mineralisation. The key gold ground is also situated ~60km north-west of GoldRoads (GOR)/Goldfieds +6Moz Gruyere gold project (now under construction) and spans a 65km structural zone.

The Company commissioned CSA Global and Dr Scott Halley to conduct a structural interpretation and targeting exercise over the project area. This was largely instigated after neighbour GOR released some significant gold results in close proximity to APC's ground. Of particular interest was GOR's reported gold intersections of **10m @ 28.8 g/t Au** and **8.2m @ 11.6g/t Au** from Corkwood/Ibanez, which is only 2km south-east of APC's tenement holding.

First pass drilling (an aircore program for 23,000m over 3 stages) has now commenced. Five of the highest priority targets (T07-011 from Area 1) are located along strike and within a few kilometres of GOR Corkwood gold camp (Ibanez, Stratocaster, Washburn, and Gibson prospects). This target area also reports coincident arsenic-in-soils anomalism and will be the first targets tested in the current program. APC has some 12 targets already identified with more expected to be generated from the +65km structural setting.

First results are expected to be reported in early May 2018.

Fig. 1: APC's Yamarna Gold Project: Tenure Location (LHS); Interpreted Structures (RHS)



Source: Australian Potash Limited

LAKE WELLS POTASH PROJECT

SOP PRODUCTION WITH LOW CAPEX HURDLE

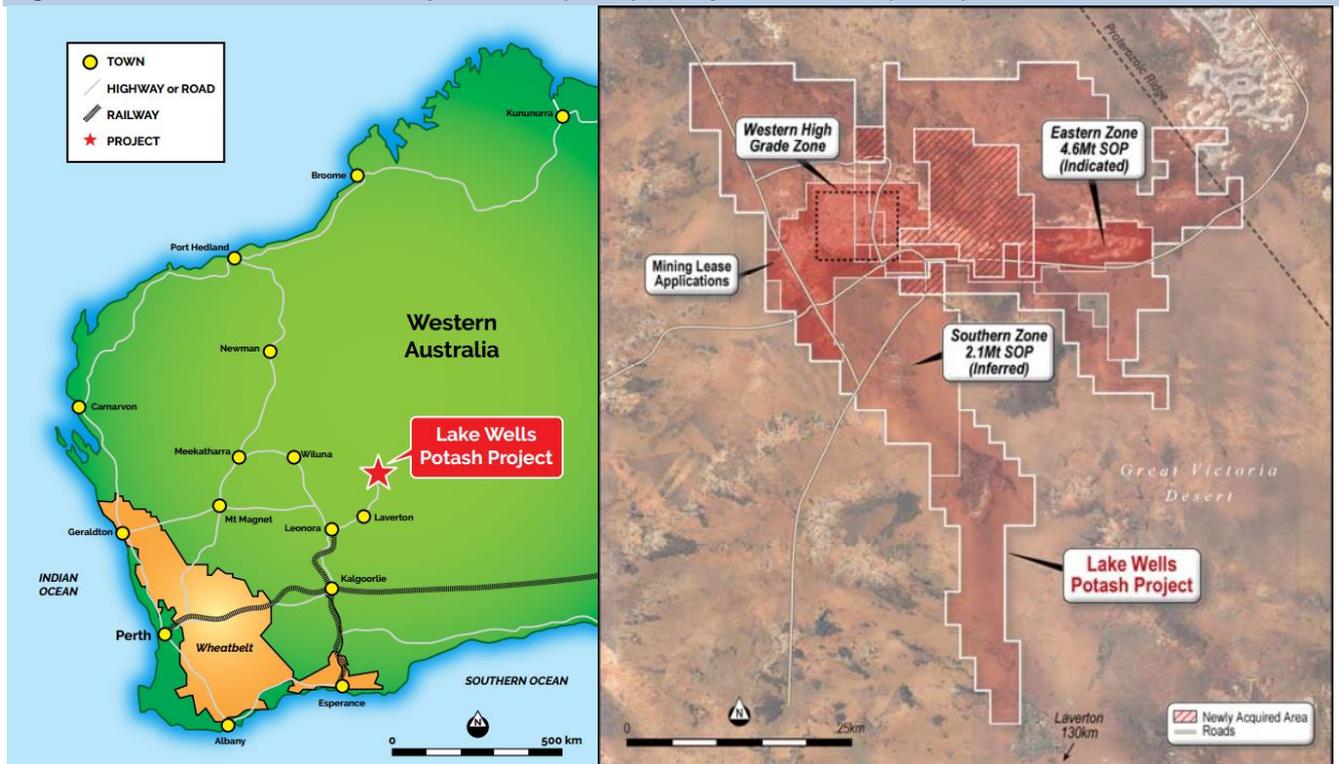
*Project located
~500km NE of
Kalgoorlie, WA*

The Lake Wells Potash Project is located ~180km north-east of Laverton, ~500km north-east of Kalgoorlie in WA. The project area consists of exploration tenure, which covers ~2,000km² and APC has 100% ownership and all potash rights. Access to the project is via the Great Central (~90km sealed/unsealed road) and Lake Wells (~90km unsealed) roads. The project is located ~300km from a bulk rail terminal at Leonora. The climate for the project area is highly conducive to evaporation and thus a solar salt operation.

*Potash as a high
value bulk commodity
which requires access
to infrastructure*

Australia currently imports 100% of its potassium fertiliser requirements, and the low chloride and high sulphate content of SOP makes it an ideal and preferred form of potassium (fertiliser) for Australian farmers. SOP attracts a superior price to muriate of potash (MOP), and is underpinned by limited brine supply (only 3 evaporative operations globally) and increasing demand (forecast growth of 4%). Australia currently has no potash production, but appears well endowed with resources across a number of its salt lake systems, with commercial extractability now being determined.

Fig. 2: Lake Wells Potash Project, WA (LHS): Project Tenure (RHS)



Source: Australian Potash Limited

*Brine SOP projects
generally occupy the
lower end of
production cost curve
and have lower capital
hurdles than rock
potash projects*

APC released a maiden SOP resource for its Lake Wells Project in late June 2016, and upgraded the resource estimate for the Scoping Study (March 2017). The total resource estimate using specific yield provides **14.7Mt of SOP grading 7,896mg/L SOP**. Indicated resources make up 12.7Mt (86%) of total resources, with three main hydrogeological zones (Western High Grade, Eastern and Southern Zones). The Southern Zone is currently data constrained and as such classified as Inferred.

APC proposes to develop the Lake Wells Potash Project in two stages.

The Scoping development study was led by NovoPro (an expert potash consultant from Canada)

Stage 1 development consists of 35 bores extracting brine to evaporation ponds, simple processing to crystallise the SOP for transport to markets. The Company plans to extract the SOP-rich brine from a network of bores positioned along the central parts of the palaeochannel.

The processing plant has been designed in such a manner to include a muriate of potash (MOP) to SOP conversion circuit, which increases overall SOP production. The MOP to SOP conversion is using the excess naturally occurring sulphate in the brines, and involves no sulphuric acid use (not the Mannheim Process).

The Scoping Study highlights potential for a long-life, staged production of 150ktpa to 300ktpa of SOP for initial capital costs of A\$175M

The initial production rate of 150ktpa of SOP (includes ~42ktpa of imported MOP to SOP conversion for 50ktpa SOP). Stage 1 opex is estimated to be A\$368/t SOP, which at the SOP prices (US\$612/t/A\$795/t) used in the Scoping Study provides capital payback in less than 3 years.

Stage 2 expansion in year 5 duplicates Stage 1 to double production to 300ktpa SOP (includes 100ktpa of imported MOP conversion). After expansion, opex improves to A\$339/t SOP, with LOM sustaining capex expected to be less than A\$3Mpa.

Stage 2 capex of A\$163M (includes a contingency of A\$23M), is expected to be funded largely through internal cash flows. Over the initial 20 year mine life and assuming Stage 2 development for 300ktpa SOP, the borefield will produce a total of 3.3Mt of SOP.

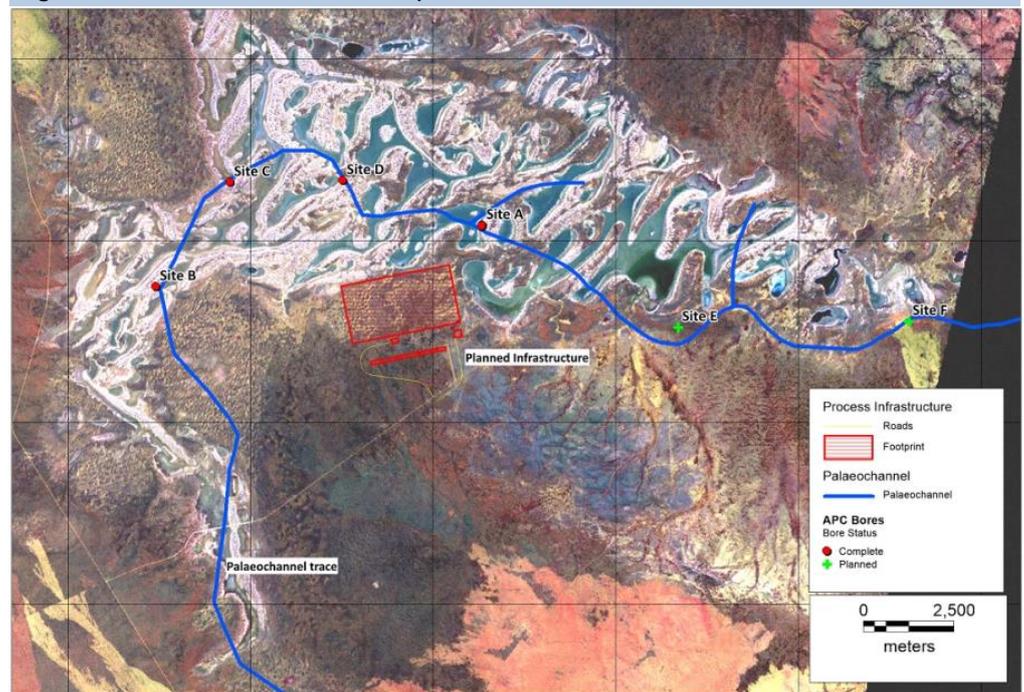
Pilot evap pond filled



Source: APC

Lake Wells FS due for release in H2 CY18.

Fig. 3: Lake Wells: Test production bores location



Source: Australian Potash Limited

The work currently underway includes the installation of a number of test production bores and the commissioning of a system of pilot evaporation ponds at the salt lake. The data collected from this activity will be used in the Lake Wells Feasibility Study (FS) due for release in H2 CY18.

VALUATION AND PRICE TARGET

METHODOLOGY

*Largely unchanged
APC NAV*

Our sum of parts valuation for APC is based largely on information supplied in the Scoping Study. We assume staged production (**Stage 1**: 150ktpa 1-5 years and **Stage 2**: 300ktpa 6-20 years), with a similar capex and opex profile as per the study.

We assume existing infrastructure of roads and rail can be accessed and SOP prices of US\$620/t. We assume startup capex of ~A\$180m and funding through a 50% debt and 50% equity mix. Our price target for APC is weighted for the different scenarios (as shown below).

Fig. 4: APC Price Target Methodology

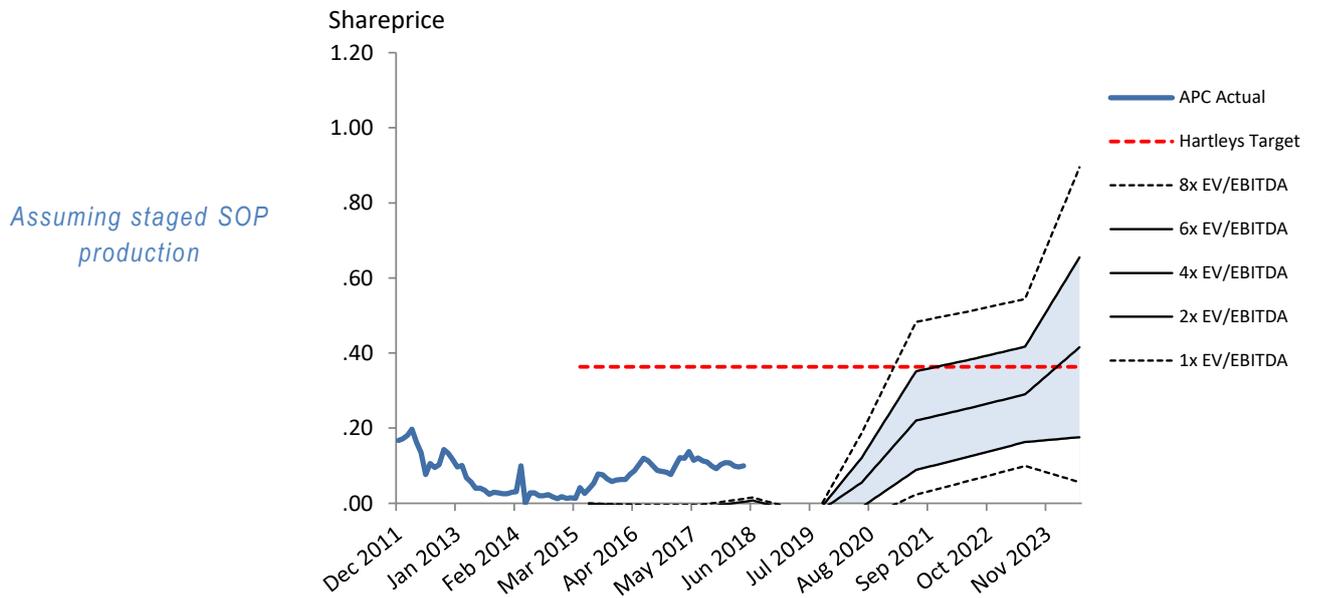
Price Target Methodology	Weighting	Spot	12 mth out
NPV base case (disc. rate 12%), debt/equity funded 50/50	45%	\$0.40	\$0.43
NPV base case (disc. rate 10%), debt/equity funded 50/50	20%	\$0.48	\$0.52
Cash backing	15%	\$0.00	\$0.00
NPV spot prices debt/equity funded 50/50	20%	\$0.30	\$0.32
Risk weighted composite		\$0.34	
12 Months Price Target		\$0.36	
Shareprice - Last		\$0.100	
12 mth total return (% to 12mth target + dividend)		263%	

*Updated 12-month
price target of 36cps*

Source: Hartleys Estimates

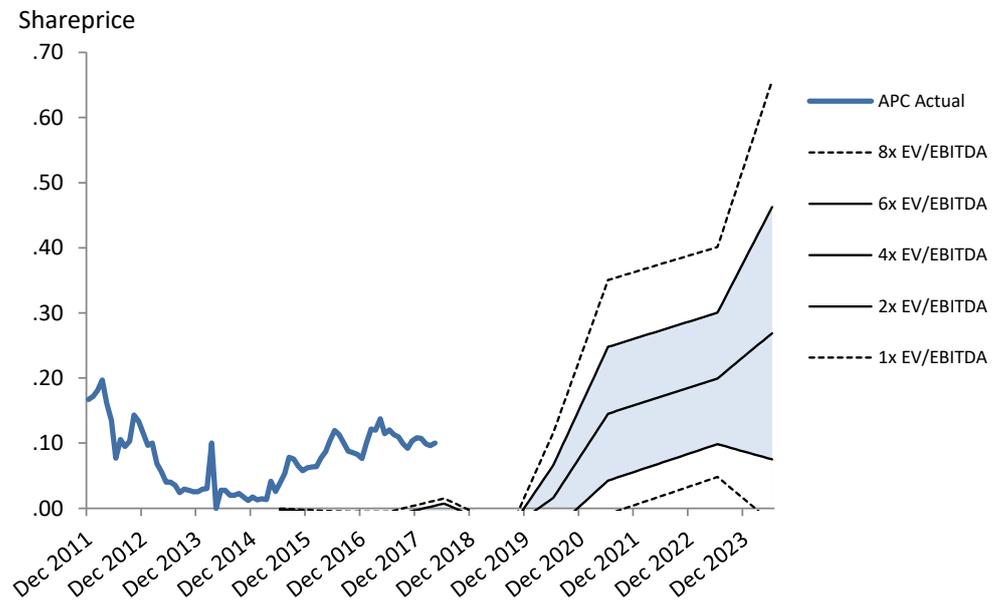
EV/EBITDA BANDS

Fig. 5: Using Hartleys Base Case Commodity Forecasts



Source: Hartleys Estimates

Fig. 6: Using Spot Commodity Prices



Source: Hartleys Estimates

RISKS

Key risks for APC are funding, and commodity prices. Hence we view APC as high risk.

Fig. 7: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Model parameters for our APC valuation and price target	Med	Meaningful	We have made a number of assumptions in our APC valuation, based largely on the Scoping Study, which will be preceded by more accurate development studies. APC has no production history. Any changes to our assumptions have both upside and downside risks.
Favourable commodity prices	Low	Meaningful	APC remains sensitive to changes in commodity (potash) prices, exchange rates and market sentiment. Though with no current operations, direct impact from commodity prices is limited. We assume potash prices will remain stable into the near-term, which is open to speculation.
Funded for ongoing exploration	Med	Moderate	APC's cash position is just over A\$1M. As an explorer with no current production assets, ongoing funding will be required. We assume development studies will be progressed.

Conclusion

We have made significant assumptions but believe these are achievable.

Source: Hartleys Research

HARTLEYS CORPORATE DIRECTORY

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Ben Crossing	Director	+61 8 9268 3047
Ben Wale	Associate Director	+61 8 9268 3055
Stephen Kite	Associate Director	+61 8 9268 3050
Scott Weir	Associate Director	+61 8 9268 2821
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Note: personal email addresses of company employees are structured in the following

manner:firstname_lastname@hartleys.com.au

Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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