

## SECTION 232 – POTENTIAL FOR COUNTRY EXEMPTIONS?

### Investment Highlights

- The US Department of Commerce (DoC) is expected to complete its Section 232 investigation into uranium imports on 14 April 2019. Once completed, the US President then has 90 days to decide whether any potential action will be taken. US buyers have stayed out of the market as they are not clear on what the outcome of the investigation will be, and therefore they have not entered into any new contracts. As such we believe an outcome on the Section 232 investigation will give more market certainty and may drive a renewed interest in the uranium sector more generally.**
- Findings of the investigation may not be released next week.** It is not known whether the DoC report will be made public on 14 April as there is recent precedent for both releasing and not releasing the report to the public. The findings of the Section 232 report on auto tariffs that concluded in February 2019 were not released to the public (the President's decision is expected by May), while the 2017 Steel and Aluminium Section 232 investigation findings were made public when handed to the President.
- What are the Section 232 petitioners calling for?** The Section 232 petitioners have proposed a quota that would reserve a limited portion (25%) of the US market for US produced uranium. The DoC can recommend this action, propose higher/lower quotas or tariffs, or recommend no action be taken.
- Potential for country exemptions if quotas are implemented.** The US would be unable to meet a 25% domestic quota in the near term and therefore such a quota would need to be phased in (8% to 10% is achievable in the short term in our view), or include exemptions for countries such as Australia and Canada to be achievable. An import tariff on U<sub>3</sub>O<sub>8</sub> would need to be over 100% on today's spot price of US\$25.35/lb to meet our US\$55/lb estimated price to incentivise US production.
- Reducing to Hold (prior: Spec. Buy).** In October 2018 we stated that VMY was a bet on higher U<sub>3</sub>O<sub>8</sub> prices. We continue to maintain that view and we note the Mulga Rock uranium project definitive feasibility study (DFS) is based on a contract U<sub>3</sub>O<sub>8</sub> price of US\$60/lb. While a rising uranium price will be positive for the majority of uranium companies, our preference in the sector is for companies with plant already in place that can bring production on-line in a relatively short space of time.

| Year End June 30      | 2018A | 2019F | 2020F  | 2021F  | 2022F   |
|-----------------------|-------|-------|--------|--------|---------|
| Reported NPAT (A\$m)  | (9.5) | (7.0) | (5.6)  | (7.0)  | (12.4)  |
| Recurrent NPAT (A\$m) | (9.5) | (7.0) | (5.6)  | (7.0)  | (12.4)  |
| Recurrent EPS (cents) | (2.0) | (1.4) | (0.2)  | (0.2)  | (0.4)   |
| EPS Growth (%)        | na    | na    | na     | na     | na      |
| PER (x)               | (3.5) | (4.8) | (42.3) | (34.1) | (19.3)  |
| EBITDA (A\$m)         | (9.4) | (6.7) | (5.7)  | (7.1)  | (6.7)   |
| EV/EBITDA (x)         | (3.0) | (4.2) | (40.4) | (32.5) | (63.4)  |
| Capex (A\$m)          | 0.1   | 1.6   | 3.0    | 3.0    | 209.8   |
| Free Cashflow         | (8.8) | (7.9) | (8.0)  | (9.4)  | (222.1) |
| FCFPS (cents)         | (1.8) | (1.6) | (0.2)  | (0.3)  | (6.4)   |
| PFCF (x)              | na    | na    | na     | na     | na      |
| DPS (cents)           | 0.0   | 0.0   | 0.0    | 0.0    | 0.0     |
| Yield (%)             | 0.0   | 0.0   | 0.0    | 0.0    | 0.0     |
| Franking (%)          | 0.0   | 0.0   | 0.0    | 0.0    | 0.0     |

12 April 2019

| 12mth Rating       | HOLD |      |
|--------------------|------|------|
| Price              | A\$  | 0.07 |
| Target Price       | A\$  | 0.07 |
| 12mth Total Return | %    | 3.9  |

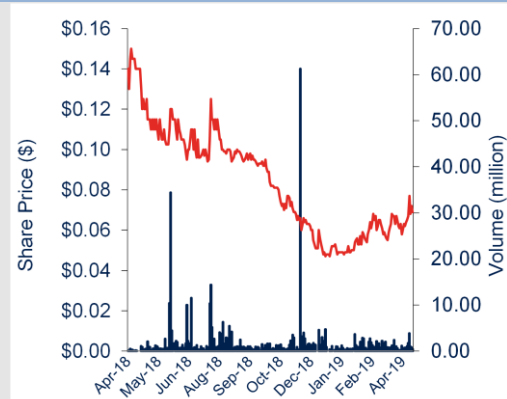
|                    |      |                    |
|--------------------|------|--------------------|
| RIC: <b>VMY.AX</b> |      | BBG: <b>VMY AU</b> |
| Shares o/s         | m    | 484.7              |
| Free Float         | %    | 98.3               |
| Market Cap.        | A\$m | 33.4               |
| Net Debt (Cash)    | A\$m | -5.8               |
| Net Debt/Equity    | %    | na                 |
| 3mth Av. D. T'over | A\$m | 0.063              |
| 52wk High/Low      | A\$  | 0.15/0.05          |
| 2yr adj. beta      |      | 1.14               |

#### Valuation:

|                 |     |      |
|-----------------|-----|------|
| Methodology     |     | DCF  |
| Value per share | A\$ | 0.07 |

|          |                    |
|----------|--------------------|
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### 12 Month Share Price Performance



| Performance %    | 1mth | 3mth | 12mth  |
|------------------|------|------|--------|
| Absolute         | 16.9 | 40.8 | (50.7) |
| Rel. S&P/ASX 300 | 16.3 | 33.4 | (57.3) |

## U.S. SECTION 232 INVESTIGATION – KEY POINTS

Section 232 of the United States Trade Expansion Act of 1962 provides the US President with the ability to impose restrictions on certain imports based on an affirmative determination by the Department of Commerce that the product under investigation “is being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security.”

In January 2018, two of the three current US uranium producers lodged a petition with the US Department of Commerce. On 18 July 2018, the Trump Administration launched a Section 232 investigation into uranium ore and product details, and the investigation findings are scheduled to be released on 14 April 2019.

### Who lodged the petition?

The petitioners are Energy Fuels Resources Inc (EFR.TSX, market cap \$360m) and Ur-Energy USA Inc (URE.TSX, market cap \$157m).

- **Energy Fuels Resources Inc** produces uranium via conventional and ISR technology from two sites – White Mesa Mill in Utah (conventional), and the Nicholas Ranch Plant in Wyoming (ISR). It also has a licensed, permitted and constructed ISR facility on care and maintenance at Alta Mesa in Texas, plus other uranium projects.
- **Ur-Energy USA Inc** operates the Lost Creek ISR facility in Wyoming which commenced operations in 2013. Lost Creek has a processing capacity of 2 Mlb/y, but is operating at significantly lower levels having produced 302 klb in 2018, with 480 lb sold.

### Why did they submit the petition?

The US is the largest consumer of uranium in the world, however it only produces around 5% of its requirements domestically. Furthermore, approximately 20% of US electricity is supplied from nuclear power plants. As a result, the petitioners believe that the US’ defence (eg nuclear weapons, and fuel for US Navy submarines and ships), and infrastructure is threatened by “state-sponsored producers in Russia, Kazakhstan, Uzbekistan and China”, and that “with no free market constraints, producers in these countries are destroying [the US] uranium mining industry”.

### What are the proposed solutions in the petition?

The petition calls for (1) a quota that would reserve a limited portion (25%) of the US market for US produced uranium; and (2) a ‘Buy American’ policy for federal agencies that essentially requires government utilities and federal government agencies to purchase domestic uranium for its own needs. The proposed solutions would essentially force the US producers on their customers.

While not a recommendation of the petition, tariffs are another outcome that has been implemented by the Trump Administration. However, tariffs are not an optimal solution (for the producers) in our view, as it is unlikely that they would stop production from the state run countries entering the US, and so in theory there would be no benefit to the US producers.

### What do the US utilities think of the petition?

On the flipside of the producers’ argument for quotas, the majority of US nuclear energy generators have formed an alliance named the Ad-Hoc Utilities Group (AHUG) to oppose the Department of Commerce’s Section 232 investigation of uranium imports. AHUG believes there is no national security basis for imposing quotas or tariffs. In addition, it argues that the rising costs for uranium creates potential for further nuclear plant closures that will cause “significant domestic economic harm, impact national security by increasing reliance on a finite, depletable domestic resource and weaken our civil nuclear energy sector”. AHUG goes on to argue that quotas or tariffs on the industry “is inconsistent with President Trump’s executive order and the Department of Energy’s policies to prevent further nuclear plant shutdowns.”

### What was the outcome of the 1989 investigation into uranium imports?

In 1989 a Section 232 investigation of uranium imports was triggered, in part, because the share of imported uranium at the time exceeded 37.5% (we note that imports are forecast to be around 98% of US consumption in 2019). The 1989 investigation concluded that domestic sources of uranium were vital to national security, however it stated that imports ultimately did not pose a risk to national security and recommended that no action be taken.

### **What was the outcome of the Section 232 investigation on US steel and aluminium imports?**

Following concerns about global overcapacity in steel and aluminium production, in April 2017 the Trump Administration initiated Section 232 investigations on US steel and aluminium imports. As a result, in March 2018, the US President applied 25% and 10% tariffs, respectively, on certain steel and aluminium imports. The President temporarily exempted several countries from the tariffs pending negotiations on potential alternative measures. Permanent tariff exemptions in exchange for quantitative limitations on US imports were eventually announced covering steel for Brazil and South Korea, and both steel and aluminium for Argentina. Australia was permanently exempted from both tariffs with no quantitative restrictions.

### **When can we expect announcement of the investigation findings?**

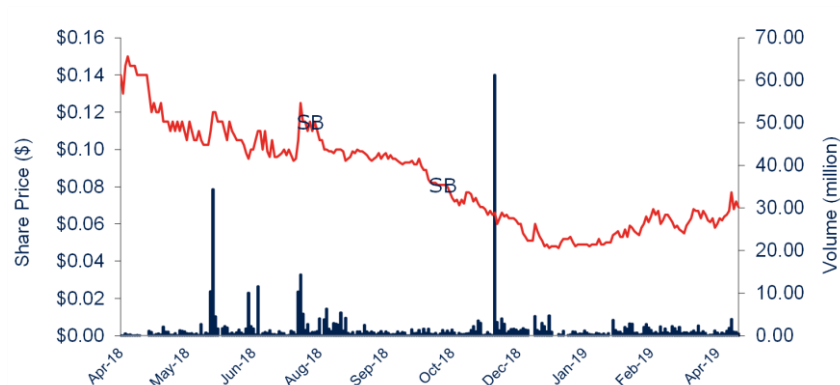
The investigation into the effects of uranium imports on national security commenced on 18 July 2018, and the Department of Commerce has up to 270 days to conclude the investigation and submit its report and recommendations to the president which equates to a date of 14 April 2019. The date was recently reconfirmed by the US Government.

### **In summary...**

The Section 232 investigation looks like a political hot potato, but the actual outcome is somewhat less important than what it means in our view; the secondary impact of the outcome, i.e. certainty in the market, is far more important. There has been uncertainty in the market since the initial rumblings of the Section 232 uranium investigation. As a result, US buyers have stayed out of the market as they are not clear on what the outcome of the investigation will be, and therefore they have not entered into any new contracts. This has resulted in 12+ months of pent up demand for uranium while the Section 232 investigation outcome is being determined. Regardless of the outcomes of the investigation, demand will start to get filled and contracts are likely to be signed as buyers will have more certainty on the role the US government will play in the uranium market.

| VIMY RESOURCES LIMITED (VMY.AX)                          |  |  |  |  | Price                           | \$0.07      | Year End 30 June                  |        |       |                            |             |              |              |              |              |               |                |
|--|--|--|--|--|---------------------------------|-------------|-----------------------------------|--------|-------|----------------------------|-------------|--------------|--------------|--------------|--------------|---------------|----------------|
| Valuation  |  |  |  |  | \$m                             | \$/sh       | Commodity Assumptions             |        |       |                            |             |              |              |              |              |               |                |
| Mulga Rock Uranium Project, Risked at 50%                |  |  |  |  | 257                             | 0.07        | US\$/A\$                          | 0.77   | 0.72  | 0.72                       | 0.72        | 0.73         |              |              |              |               |                |
| Exploration  |  |  |  |  | 8                               | 0.00        | Uranium Price (US\$/lb)           | 22     | 34    | 45                         | 50          | 53           |              |              |              |               |                |
| Net cash (debt)  |  |  |  |  | 3                               | 0.00        | <b>Production Summary</b>         |        |       |                            |             |              |              |              |              |               |                |
| Corporate costs  |  |  |  |  | (20)                            | (0.01)      | 2018A                             | 2019F  | 2020F | 2021F                      | 2022F       |              |              |              |              |               |                |
| <b>Total Valuation</b>                                   |  |  |  |  | <b>248</b>                      | <b>0.07</b> | Annual production (lb)            | 0      | 0     | 0                          | 0           | 0            |              |              |              |               |                |
|  |  |  |  |  |                                 |             | Ore treated eq. (kt)              | 0      | 0     | 0                          | 0           | 0            |              |              |              |               |                |
|  |  |  |  |  |                                 |             | All-in Sustaining Costs (US\$/lb) | 0      | 0     | 0                          | 0           | 0            |              |              |              |               |                |
| <b>Reserves &amp; Resources</b>                          |  |  |  |  | <b>Profit &amp; Loss (A\$m)</b> |             |                                   |        |       |                            |             |              |              |              |              |               |                |
| <b>Ore Reserves</b>                                      |  |  |  |  | 2018A                           |             |                                   |        |       |                            |             | 2019F        | 2020F        | 2021F        | 2022F        |               |                |
|  |  |  |  |  | Total revenue                   |             |                                   |        |       |                            |             | 0.6          | 0.0          | 0.0          | 0.0          | 0.0           |                |
|  |  |  |  |  | Operating costs                 |             |                                   |        |       |                            |             | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           |                |
|  |  |  |  |  | Exploration expensed            |             |                                   |        |       |                            |             | (6.0)        | (3.3)        | (0.6)        | (0.6)        | 0.0           |                |
|  |  |  |  |  | Corporate & admin               |             |                                   |        |       |                            |             | (4.0)        | (3.5)        | (5.1)        | (6.5)        | (6.7)         |                |
|  |  |  |  |  | Other expenses                  |             |                                   |        |       |                            |             | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           |                |
|  |  |  |  |  | <b>EBITDA</b>                   |             |                                   |        |       |                            |             | <b>(9.4)</b> | <b>(6.7)</b> | <b>(5.7)</b> | <b>(7.1)</b> | <b>(6.7)</b>  |                |
|  |  |  |  |  | DD&A                            |             |                                   |        |       |                            |             | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           |                |
|  |  |  |  |  | <b>EBIT</b>                     |             |                                   |        |       |                            |             | <b>(9.4)</b> | <b>(6.7)</b> | <b>(5.7)</b> | <b>(7.1)</b> | <b>(6.7)</b>  |                |
|  |  |  |  |  | Net interest expense            |             |                                   |        |       |                            |             | (0.2)        | (0.2)        | 0.1          | 0.1          | (5.7)         |                |
|  |  |  |  |  | Tax expense                     |             |                                   |        |       |                            |             | 0.0          | 0.0          | 0.0          | 0.0          | 0.0           |                |
|  |  |  |  |  | <b>NPAT (underlying)</b>        |             |                                   |        |       |                            |             | <b>(9.5)</b> | <b>(7.0)</b> | <b>(5.6)</b> | <b>(7.0)</b> | <b>(12.4)</b> |                |
|  |  |  |  |  | Diluted EPS (cps)               |             |                                   |        |       |                            |             | <b>(2.0)</b> | <b>(1.4)</b> | <b>(0.2)</b> | <b>(0.2)</b> | <b>(0.4)</b>  |                |
|  |  |  |  |  | DPS (cps)                       |             |                                   |        |       |                            |             | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>   | <b>0.0</b>    |                |
| <b>Ratios</b>  |  |  |  |  | 2017A                           | 2018F       | 2019F                             | 2020F  | 2021F | <b>Cash Flow (A\$m)</b>    |             |              | 2018A        | 2019F        | 2020F        | 2021F         | 2022F          |
| P/E (x)  |  |  |  |  | -3.5                            | -4.8        | -42.3                             | -34.1  | -19.3 | EBIT (Cash Flow)           |             |              | (9.4)        | (6.7)        | (5.7)        | (7.1)         | (6.7)          |
| Enterprise Value   |  |  |  |  | 25.9                            | 27.7        | 28.2                              | 231.7  | 231.1 | Depreciation - Cash Flow   |             |              | 0.0          | 0.0          | 0.0          | 0.0           | 0.0            |
| EV/EBITDA (x)  |  |  |  |  | -3.0                            | -4.2        | -40.4                             | -32.5  | -63.4 | Net Interest Paid          |             |              | 0.0          | (0.2)        | 0.1          | 0.1           | (5.7)          |
| EV/Free Cash Flow  |  |  |  |  | (3.0)                           | (3.5)       | (3.5)                             | (24.6) | (1.0) | Tax Paid                   |             |              | 0.0          | 0.0          | 0.0          | 0.0           | 0.0            |
|  |  |  |  |  |                                 |             |                                   |        |       | Other Operating Cash Flows |             |              | 0.0          | 0.0          | 0.0          | 0.0           | 0.0            |
| PFCF (x)   |  |  |  |  | na                              | na          | na                                | na     | na    | <b>Operating Cash Flow</b> |             |              | <b>(9.4)</b> | <b>(7.0)</b> | <b>(5.6)</b> | <b>(7.0)</b>  | <b>(12.4)</b>  |
| DPS (cents)  |  |  |  |  | 0                               | 0           | 0                                 | 0      | 0     | Capital expenditure        |             |              | (0.1)        | (0.1)        | 0.0          | 0.0           | (206.8)        |
| Div. Yield (%)   |  |  |  |  | na                              | na          | na                                | na     | na    | Exploration expenditure    |             |              | 0.0          | (1.5)        | (3.0)        | (3.0)         | (3.0)          |
| Franking (%)   |  |  |  |  | na                              | na          | na                                | na     | na    | <b>Free Cash Flow</b>      |             |              | <b>(9.5)</b> | <b>(8.6)</b> | <b>(8.6)</b> | <b>(10.0)</b> | <b>(222.1)</b> |
|  |  |  |  |  |                                 |             |                                   |        |       | Dividends                  |             |              | 0.0          | 0.0          | 0.0          | 0.0           | 0.0            |
|  |  |  |  |  |                                 |             |                                   |        |       | Equity Raised              |             |              | 12.1         | 7.8          | 10.0         | 10.0          | 30.0           |
|  |  |  |  |  |                                 |             |                                   |        |       | Debt drawn (repaid)        |             |              | 0.0          | 0.0          | 0.0          | 0.0           | 200.0          |
|  |  |  |  |  |                                 |             |                                   |        |       | <b>Net Change in Cash</b>  |             |              | <b>2.6</b>   | <b>(0.8)</b> | <b>1.4</b>   | <b>(0.0)</b>  | <b>7.9</b>     |
|  |  |  |  |  |                                 |             |                                   |        |       | Cash at Period End         |             |              | 6.7          | 5.2          | 7.2          | 7.8           | 15.7           |
|  |  |  |  |  |                                 |             |                                   |        |       | <b>Net Cash (Debt)</b>     |             |              | <b>5.8</b>   | <b>5.3</b>   | <b>7.2</b>   | <b>7.8</b>    | <b>(184.3)</b> |
| <b>Directors &amp; Management</b>                        |  |  |  |  |                                 |             |                                   |        |       |                            |             |              |              |              |              |               |                |
| <b>Name</b>  |  |  |  |  | <b>Position</b>                 |             |                                   |        |       |                            |             |              |              |              |              |               |                |
| The Hon. Cheryl Edwards, AM                              |  |  |  |  | Chairman                        |             |                                   |        |       |                            |             |              |              |              |              |               |                |
| Mike Young   |  |  |  |  | Managing Director & CEO         |             |                                   |        |       |                            |             |              |              |              |              |               |                |
| David Cornell  |  |  |  |  | Non-Executive Director          |             |                                   |        |       |                            |             |              |              |              |              |               |                |
| Mal James  |  |  |  |  | Non-Executive Director          |             |                                   |        |       |                            |             |              |              |              |              |               |                |
| Tony Chamberlain   |  |  |  |  | Non-Executive Director          |             |                                   |        |       |                            |             |              |              |              |              |               |                |
| <b>Top Shareholders, as at 28 February 2019</b>          |  |  |  |  | <b>Balance Sheet (A\$m)</b>     |             |                                   |        |       |                            |             | 2018A        | 2019F        | 2020F        | 2021F        | 2022F         |                |
|  |  |  |  |  | Shares (m)                      | %           | Cash                              |        |       | 6.7                        | 5.2         | 7.2          | 7.8          | 15.7         |              |               |                |
| Forrest Family Investments Pty Ltd, Asset Management Arm |  |  |  |  | 57                              | 12%         | <b>Total Assets</b>               |        |       | <b>8.6</b>                 | <b>12.8</b> | <b>17.2</b>  | <b>20.2</b>  | <b>237.8</b> |              |               |                |
| Paradise Investment Management                           |  |  |  |  | 41                              | 8%          | Creditors                         |        |       | 0.0                        | 0.0         | 0.0          | 0.0          | 0.0          |              |               |                |
| Michael Fewster  |  |  |  |  | 35                              | 7%          | Current Borrowings                |        |       | 0.9                        | 0.0         | 0.0          | 0.0          | 0.0          |              |               |                |
| Acorn Capital Limited                                    |  |  |  |  | 27                              | 6%          | Non-current Borrowings            |        |       | 0.0                        | (0.0)       | (0.0)        | (0.0)        | 200.0        |              |               |                |
| Peter Sarantzouklis                                      |  |  |  |  | 20                              | 4%          | Provisions                        |        |       | 1.2                        | 1.3         | 1.3          | 1.3          | 1.3          |              |               |                |
| <b>Top 5 Shareholders</b>                                |  |  |  |  | <b>180.5</b>                    | <b>37%</b>  | <b>Total Liabilities</b>          |        |       | <b>2.1</b>                 | <b>5.4</b>  | <b>5.4</b>   | <b>5.4</b>   | <b>205.3</b> |              |               |                |
|  |  |  |  |  |                                 |             | <b>Shareholders Funds</b>         |        |       | <b>6.5</b>                 | <b>7.4</b>  | <b>11.8</b>  | <b>14.8</b>  | <b>32.4</b>  |              |               |                |

## Recommendation History



| Date      | Type                  | Target Price | Share Price | Recommendation | Return |
|-----------|-----------------------|--------------|-------------|----------------|--------|
| 07 Feb 18 | Research Note         | 0.26         | 0.15        | SB             |        |
| 01 Mar 18 | Hot off the Press     | 0.26         | 0.14        |                | -3.4%  |
| 04 Apr 18 | Resources Review Book | 0.26         | 0.13        |                |        |
| 05 Apr 18 | Research Note         | 0.26         | 0.15        | SB             | 11.5%  |
| 02 Aug 18 | Research Note         | 0.20         | 0.11        | SB             | -24.1% |
| 19 Oct 18 | Resources Review Book | 0.12         | 0.11        | SB             | 0.0%   |
|           | Current Share Price   |              | 0.07        |                | -37.3% |

**Stock recommendations:** Investment ratings are a function of Patersons expectation of total return (forecast price appreciation plus dividend yield) within the next 12 months. The investment ratings are Buy (expected total return of 10% or more), Hold (-10% to +10% total return) and Sell (> 10% negative total return). In addition we have a Speculative Buy rating covering higher risk stocks that may not be of investment grade due to low market capitalisation, high debt levels, or significant risks in the business model. Investment ratings are determined at the time of initiation of coverage, or a change in target price. At other times the expected total return may fall outside of these ranges because of price movements and/or volatility. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. This Document is not to be passed on to any third party without our prior written consent.



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## Patersons Securities Limited Disclosure of Interest

Patersons Securities and its respective officers and associates may have an interest in the securities or derivatives of any entities referred to in this material

Patersons Securities does, and seeks to do, business with companies that are the subjects of its research reports.

## Patersons Securities Corporate Relationship Disclosure

|     |  |
|-----|--|
| 88E | Patersons Securities have acted for 88 Energy Limited (88E) within the past two years and have received fees for these services.           |
| AKM | Patersons Securities have acted for Aspire Nmining Limited (AKM) within the past two years and have received fees for these services.      |
| AXL | Patersons Securities have acted for Axesstoday Limited (AXL) within the past two years and have received fees for these services.          |
| BOE | Patersons Securities have acted for Boss Resources Limited (BOE) within the past two years and have received fees for these services.      |
| BRB | Patersons Securities have acted for Breaker Resources NL (BRB) within the past two years and have received fees for these services.        |
| BSX | Patersons Securities have acted for Blackstone Minerals Limited (BSX) within the past two years and have received fees for these services. |
| BUX | Patersons Securities have acted for Buxton Resources Limited (BUX) within the past two years and have received fees for these services.    |
| CSS | Patersons Securities have acted for Clean Seas Seafood Limited (CSS) within the past two years and have received fees for these services.  |
| GLL | Patersons Securities have acted for Galilee Energy Limited (GLL) within the past two years and have received fees for these services.      |
| IBG | Patersons Securities have acted for Ironbark Zinc Limited (IBG) within the past two years and have received fees for these services.       |
| NUS | Patersons Securities have acted for Nusantara Resources (NUS) within the past two years and have received fees for these services.         |
| PEX | Patersons Securities have acted for Peel Mining Limited (PEX) within the past two years and have received fees for these services.         |
| RCL | Patersons Securities have acted for ReadCloud Limited (RCL) within the past two years and have received fees for these services.           |
| STN | Patersons Securities have acted for Saturn Metals Limited (STN) within the past two years and have received fees for these services.       |
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