

Aeris Resources Ltd

(AIS \$0.15) Buy, Initiation of Coverage



| Analyst | Date | Price Target |
|----------------|----------------------------|--------------|
| Andrew Clayton | 12 th July 2018 | \$0.30/sh |

The Forgotten Mid Cap Copper Producer

Aeris Resources Ltd ('AIS') has a 100% interest in the Tritton Copper Mine, located in Nyngan NSW. It started production in 2005 and has produced between 20-30kt pa (avg 25kt of Cu) for the past 13 yrs.

We forecast FY'18 production of 26kt @ AISC of A\$3.45/lb generating EBITDA of \$52m - putting it on an EV/EBITDA multiple of ~2x.

Current reserves support a minimum 5 yr life. We see potential for incremental extensions at both Murrawombie and Tritton.

A site visit confirmed the 'no frills' mining approach AIS has adopted. A real focus on costs and incremental improvements to survive the tough times was evident.

Recent high grade drill results at Kurrajong including 19.4m @ 2.18% Cu, 4.6m @ 5.09% Cu and 5.65m @ 2.52% Cu are very encouraging.

Mineralisation extends over 500m down dip and remains open in all directions. We expect a maiden resource in 2nd H CY'19. We see potential for 1.5-3mt @ 1.5-2% Cu for some 22-60kt of Cu.

Regional greenfields exploration has identified a number of EM conductors that will be drill tested over the next year.

Exploration is slated to restart at Torrens JV (AIS 70%) after a 10yr exploration hiatus. Deep drilling (700-1,500m) to target large coincident gravity/magnetic anomalies should commence in 1st H FY'19.

The target is large IOCG deposits similar to the nearby Carrapatenna (OZL) and Olypmic Dam (BHP) deposits.

Recent debt reduction and share restructure is transformational.

Senior debt reduced by 53% to US\$30m and share capital reduced by 50% for \$1 plus Cu Price Participation cancelled for \$1.

Management have stuck to the task since it took control in Dec'12 and has now delivered a company which has some equity value and genuine upside.

It has long been shunned by investors due to the high debt and complex share structure but we expect AIS, as it continues to deliver, to gain more traction as a genuine mid cap Cu producer.

We value AIS at \$0.31/sh based on 5 yr mine life at Tritton and similar AISC to what it has achieved in the past few years. We value AIS' 70% interest in the Torrens JV at \$35m and assign a nominal \$20m for the exploration potential.

Short-medium catalysts include;

- Kurrajong exploration,
- Further deleveraging of the balance sheets as debt repaid,
- Greenfields exploration at Tritton,
- Exploration commencing on Torrens JV.

| Aeris Resources Ltd | Year End 30 June | |
|---------------------|------------------|--------|
| Share Price | 0.15 | A\$/sh |
| Price Target | 0.30 | A\$/sh |
| Valuation | 0.31 | A\$/sh |
| | (npv 10%) | |

| | | |
|---------------------|-----|--------------|
| Shares on issue | 467 | m, diluted * |
| Mkt Cap'n | 70 | A\$m |
| Enterprise Value | 109 | A\$m |
| Debt | -64 | A\$m |
| Cash | 25 | A\$m |
| Largest Shareholder | | SPOV - 30% |

| Production F/Cast | 2017a | 2018f | 2019f |
|------------------------|-------|-------|-------|
| Tritton Cu (kt) | 24 | 26 | 24 |
| C1 Cash Costs (A\$/lb) | 2.67 | 2.62 | 2.89 |
| AISC (A\$/lb) | 3.26 | 3.47 | 3.63 |

| Assumptions | 2017a | 2018f | 2019f |
|----------------|-------|-------|-------|
| Copper US\$/lb | 2.45 | 3.07 | 3.13 |
| AUDUSD | 0.75 | 0.78 | 0.76 |
| Copper A\$/lb | 3.25 | 3.95 | 4.11 |

| Key Financials | 2017a | 2018f | 2019f |
|-----------------|-------|-------|-------|
| Revenue (A\$m) | 166 | 224 | 213 |
| EBITDA (A\$m) | 13 | 52 | 45 |
| NPAT (A\$m) | -33 | 3 | 9 |
| Cashflow (A\$m) | -11 | 8 | 18 |

| | | | |
|------------|----|---|---|
| CFPS (Ac) | -1 | 2 | 4 |
| P/CFPS (x) | na | 8 | 4 |

| | | | |
|----------------|----|------|-----|
| EPS (Ac) | -3 | 1 | 2 |
| EPS growth (%) | na | na | 2 |
| PER (x) | na | 25.1 | 7.6 |

| | | | |
|---------------|-----|-----|-----|
| EV:EBITDA (x) | 9.5 | 2.1 | 2.1 |
| EV:EBIT (x) | na | 3.8 | 5.0 |

| | | | |
|--------------------|-----|-----|-----|
| DPS (Ac) | 0.0 | 0.0 | 0.0 |
| Dividend Yield (%) | 0% | 0% | 0% |

| | | | |
|------------------------|-----|-----|-----|
| ND:Net Debt+Equity (%) | 99% | 35% | 22% |
| Interest Cover (x) | na | 0.1 | 1.4 |

Share Price Chart



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| Market Statistics | | Year End 30 June | |
|---------------------------|--------------------|---------------------|----------|
| Share Price | 0.15 A\$/sh | Directors | |
| Issued Capital | | A. Labuschagne | Ex Charm |
| FP Ord | 280.2 m | A. Morrison | Dir |
| Opts (Mgt) | 93.4 | M. Muscillo | Dir |
| Preference Share | 93.4 | M. Derwin | Dir |
| Total Dil. FPOrd | 467.0 m | Shareholders | |
| Market Capitalisation | \$70 m | SPOV | 30% |
| Enterprise Value | \$109 m | SCB | 20% |
| Debt | \$64 m | Dir + Mgt | 20% |
| Cash | \$25 m | Glencore | 5% |
| Hedging 12kt @ A\$8,670/t | | | |

| Asset Valuation | A\$m | A\$/sh |
|--------------------|------------|-------------|
| Tritton (npv 10%) | 127 | 0.27 |
| Corporate | -19 | -0.04 |
| Hedging | 1 | 0.00 |
| Tax losses | 20 | 0.04 |
| Exploration | 20 | 0.04 |
| Torrens JV | 35 | 0.07 |
| Debt | -40 | -0.09 |
| Working Capital | -24 | -0.05 |
| Cash | 25 | 0.05 |
| Total @ 10% | 146 | 0.31 |

| F/Cast Production (A\$m) | 2017a | 2018f | 2019f | 2020f |
|--------------------------|--------------------|-------------|-------------|-------------|
| Tritton (100%) | | | | |
| Cu Prod'n | kt 24.0 | 26.1 | 23.5 | 25.0 |
| Cash Cost | A\$/lb 2.67 | 2.62 | 2.89 | 2.81 |
| AISC | A\$/lb 3.51 | 3.47 | 3.63 | 3.51 |
| Price Rec'd | A\$/lb 3.26 | 3.96 | 4.11 | 4.28 |
| Assumptions | | | | |
| Copper | US\$/lb 2.45 | 3.07 | 3.13 | 3.25 |
| FX | US\$:A\$ 0.75 | 0.78 | 0.76 | 0.76 |

| Ratio Analysis (A\$m) | 2017a | 2018f | 2019f | 2020f |
|-----------------------|--------|-------|-------|-------|
| CF (A\$m) | (11.5) | 8.5 | 17.7 | 35.8 |
| CF / Sh (Ac/sh) | (1.0) | 1.8 | 3.8 | 7.7 |
| CF Ratio (x) | na | 8.3 | 4.0 | 2.0 |
| Earnings (A\$m) | (33.5) | 2.8 | 9.3 | 21.1 |
| EPS (Ac/sh) | (2.9) | 0.6 | 2.0 | 4.5 |
| EPS Growth (%) | na | na | 232% | 128% |
| Earnings Ratio (x) | na | 25.1 | 7.6 | 3.3 |
| E'prise Val. (A\$m) | 127 | 111 | 97 | 64 |
| EV : EBITDA (attr)(x) | 9.5 | 2.1 | 2.1 | 1.1 |
| EV : EBIT (attr)(x) | na | 3.8 | 5.0 | 2.0 |
| Net Debt / ND+Eq (%) | 99% | 35% | 22% | na |
| Net Debt : Equity (%) | 14161% | 54% | 29% | na |
| Interest Cover (x) | na | 0.1 | 1.4 | 6.4 |
| EBIT Margin (%) | na | -13% | -9% | -14% |
| ROE (%) | -4315% | 4% | 10% | 17% |
| ROA (%) | -20% | 2% | 5% | 11% |
| Div. (Ac/sh) | - | - | - | - |
| Div. payout ratio | - | - | - | - |
| Div. Yield | 0% | 0% | 0% | 0% |
| Div. Franking | 0% | 0% | 0% | 0% |

| Profit and Loss (A\$m) | 2017a | 2018f | 2019f | 2020f |
|------------------------------------|-------------|------------|------------|------------|
| Sales Revenue | 167 | 222 | 209 | 231 |
| Hedging Revenue | (1) | (0) | 3 | - |
| Interest Revenue | - | 2 | 1 | 1 |
| Other Revenue | - | - | - | - |
| TOTAL REVENUE | 166 | 224 | 213 | 232 |
| Operating Costs | 146 | 163 | 160 | 166 |
| Dep/Amort | 25 | 23 | 22 | 27 |
| O/H + New Bus Dev | 7 | 6 | 6 | 6 |
| Prov&W/O | - | - | 4 | - |
| EBITDA | 13 | 52 | 45 | 59 |
| EBIT | (12) | 29 | 19 | 32 |
| Interest Expense | 16 | 22 | 8 | 5 |
| Net Profit bef Tax | (27) | 10 | 13 | 29 |
| Tax | 6 | 7 | 3 | 8 |
| Minority Interest | - | - | - | - |
| NET PROFIT | (33) | 3 | 9 | 21 |
| Net Adjustment | - | - | - | - |
| Net Profit After Adjustment | (33) | 3 | 9 | 21 |

| Cash Flow (A\$m) | 2017a | 2018f | 2019f | 2020f |
|---------------------------|------------|------------|------------|------------|
| Net Profit | -33 | 3 | 9 | 21 |
| + Working Capital Adj | 21 | 8 | 0 | 0 |
| + Dep/Amort | 25 | 23 | 22 | 27 |
| + Provisions | 0 | 0 | 4 | 0 |
| + Tax Expense | 6 | 7 | 3 | 8 |
| - Tax Paid | 0 | 0 | 0 | 0 |
| Operating Cashflow | 19 | 40 | 39 | 56 |
| -Capex + Development | 30 | 32 | 21 | 20 |
| -Exploration | 2 | 3 | 4 | 4 |
| -Assets Purchased | 0 | 0 | 0 | 0 |
| +Asset Sales | 3 | 0 | 0 | 0 |
| Investing Cashflow | -29 | -35 | -25 | -24 |
| + Equity Issues | 0 | 0 | 0 | 0 |
| +Loan Drawdown | 14 | 0 | 2 | 0 |
| +Other | 0 | 0 | 0 | 0 |
| -Loan Repayment | 5 | -6 | 13 | 26 |
| -Dividends | 0 | 0 | 0 | 0 |
| Financing Cashflow | 9 | 6 | -11 | -27 |
| Period Sur (Def) | -1 | 11 | 3 | 5 |
| Cash Balance | 10 | 21 | 24 | 29 |

| Balance Sheet (A\$m) | 2017a | 2018f | 2019f | 2020f |
|--------------------------|------------|------------|------------|------------|
| Assets | | | | |
| Cash | 10 | 21 | 24 | 29 |
| Current Receivables | 7 | 7 | 7 | 7 |
| Other Current Assets | 20 | 20 | 20 | 20 |
| Non-Current Assets | 127 | 137 | 140 | 137 |
| Total Assets | 163 | 185 | 190 | 192 |
| Liabilities | | | | |
| Borrowings | 120 | 62 | 51 | 23 |
| Current Accounts Payable | 25 | 29 | 29 | 29 |
| Other Liabilities | 18 | 18 | 18 | 18 |
| Total Liabilities | 163 | 109 | 98 | 70 |
| Net Assets | 1 | 75 | 92 | 122 |

| | Reserves | | | Resources | | |
|------------------|----------|-------|---------|-----------|-------|---------|
| | mt | grade | kt cont | mt | grade | kt cont |
| Tritton (100%)Cu | 10.5 | 1.5 | 150.00 | 21.0 | 1.5 | 320.00 |

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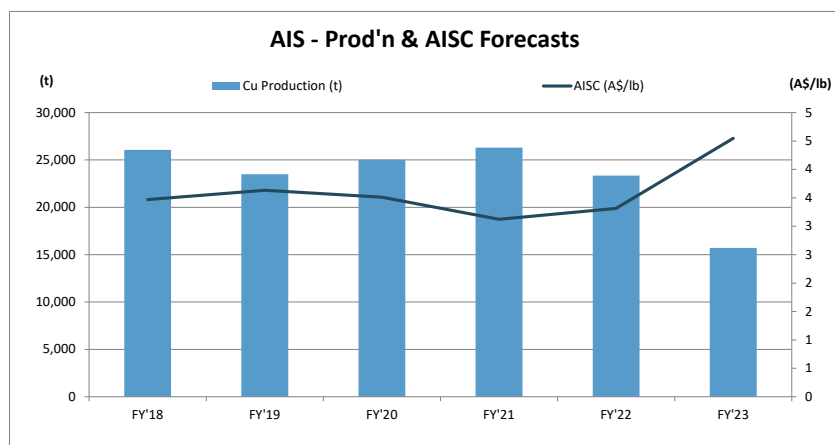
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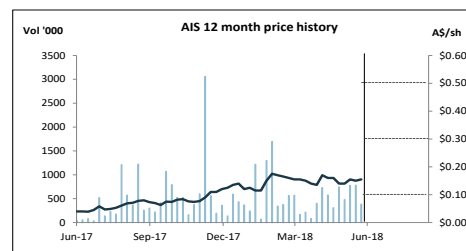
Key Variables

| Val/ Sh | Copper \$ | | | | | | | | |
|---------|-----------|------|------|------|------|------|------|------|------|
| AUDUSD | -20% | -15% | -10% | -5% | 0% | 5% | 10% | 15% | 20% |
| \$0.31 | -0.01 | 0.03 | 0.07 | 0.11 | 0.15 | 0.19 | 0.23 | 0.27 | 0.31 |
| 20% | 0.02 | 0.06 | 0.10 | 0.14 | 0.18 | 0.23 | 0.27 | 0.31 | 0.35 |
| 15% | 0.05 | 0.09 | 0.14 | 0.18 | 0.22 | 0.27 | 0.31 | 0.35 | 0.40 |
| 10% | 0.09 | 0.13 | 0.18 | 0.22 | 0.27 | 0.31 | 0.36 | 0.40 | 0.45 |
| 5% | 0.12 | 0.17 | 0.22 | 0.26 | 0.31 | 0.36 | 0.41 | 0.45 | 0.50 |
| 0% | 0.16 | 0.21 | 0.26 | 0.31 | 0.36 | 0.41 | 0.46 | 0.51 | 0.56 |
| -5% | 0.21 | 0.26 | 0.32 | 0.37 | 0.42 | 0.47 | 0.53 | 0.58 | 0.63 |
| -10% | 0.26 | 0.32 | 0.37 | 0.43 | 0.48 | 0.54 | 0.60 | 0.65 | 0.71 |
| -15% | 0.32 | 0.38 | 0.44 | 0.50 | 0.56 | 0.62 | 0.67 | 0.73 | 0.79 |
| -20% | | | | | | | | | |

| Euroz Forecast | FY'18 | FY'19 | FY'20 | FY'21 | FY'22 | FY'23 |
|----------------|--------|--------|--------|--------|--------|--------|
| Copper \$ | \$3.07 | \$3.13 | \$3.25 | \$3.25 | \$3.33 | \$3.40 |
| AUDUSD | \$0.78 | \$0.76 | \$0.76 | \$0.78 | \$0.78 | \$0.78 |



Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.31/sh

Price Target - \$0.30/sh

Bull Scenario - \$0.50/sh

Kurrajong prospect develops into a mineable project and adds 2-3yrs additional life to operations and Cu price tracks higher than our forecast.

Base Scenario - \$0.30sh

Tritton continues to operate for the next five years in line with its current reserve estimate.

Bear Scenario - \$0.10/sh

Copper price falls and Tritton ceases to generate any free cash net of debt repayments.

Company Summary

Aeris Resources Ltd (AIS) is an Australian copper production company. Tritton Copper Mine remains its flagship asset and has been operating continuously since 2005. Production has varied at between 22kt to 30kt pa. We forecast average annual production of approximately 24,000 t of Cu for the remaining 5 yrs. Current Mineral Reserve Estimate of 10.5Mt at 1.5% Cu and a minimum LOM of 5 years.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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Discussion

A name change in Dec'15 saw Straits Resources Ltd ('SRQ') become Aeris Resources Ltd ('AIS'). Previously, SRQ was a mid cap resource company with operating assets in Indonesia (coal and gold) and Australia (Copper).

Operating difficulties in 2011-12 at both its Gold mine in Indonesia and Tritton mine in NSW resulted in the current management team of Aeris appointed in Dec'12. High debt levels combined with legacy assets and low copper price made AIS a high risk investment and was largely ignored by the investment community.

At the time the new team was put in place, AIS had debt of US\$136m. It embarked on a period of selling non-core assets, reducing debt and simplifying the corporate structure and placing the Mt Muro Gold Mine into voluntary administration.

It has taken the team some 6 years to achieve this objective and in Feb'18 the latest restructure resulted in senior debt being reduced by 53% to US\$30m, share capital reduced by 50% for \$1 and Copper price participation cancelled for \$1. This was an excellent outcome.

Operationally, Tritton has continued to produce between 22-30kt of Cu pa with record production of 30.1kt of Cu in FY'16. As the mine goes deeper, the grade reduces however throughput has increased and a second mine at Murrawombie developed.

Current reserves support a ~ 5yr life at Tritton at similar production and costs as the past few years. The real upside is to extend life and hence the recent results at Kurrajong are particularly exciting. These include 19.4m @ 2.18% Cu, 4.6m @ 5.09% Cu and 5.65m @ 2.52% Cu and indicate potential mineralisation ~ 500 down dip. This will be a key focus over the next six months.

Lack of funding saw minimal expenditure on exploration with only 9 deep holes drilled in the past 6 years. However, in mid 2016, AIS committed to a \$7.5m, two year, greenfields exploration spend. The focus is on identifying >10mt, under cover ore bodies at a vertical depth of up to 500m. Results have already identified 6 EM targets that require further work.

AIS also have a 70% interest in the Torrens JV with Argonaut Resources Ltd ('ARE'). ARE has a mkt cap of \$30m and this is its principal asset. No work has been done since 2008 due to Aboriginal claims but all applications have been approved and on ground exploration can now commence. A 25-30 hole drill program is planned to commence in FY'19 targeting ~ 10 geophysical targets at depth of 700-1,500m depth. AIS plan to spend \$3.5m in FY'19

Our valuation of \$0.31/sh is based on the remaining 5 yrs at Tritton, a nominal exploration value at both Tritton and Torrens JV and current debt/cash position. It offers excellent leverage to the A\$ Cu price and the exploration upside. The significant reduction in interest and associated debt restructure costs will result in increased cashflow and a stronger balance sheet.

We currently forecast EBITDA of \$45m and \$59m for the next two years. At current prices this puts AIS on an EV/EBITDA of <3x reducing to <2x in FY'20. This is cheap in the context of other mid cap Cu producers such as MLX with consensus EV/EBITDA of 4x

Recent takeover activity in the mid cap Cu space (FND and AVB) has resulted in a dearth of mid cap Cu producers. AIS is currently the 5th largest listed ASX Cu producer but is a fraction of the EV compared to its more established peers. Comparatively on an EV/t of production it trades on ~\$4/t compared to OZL, MLX and SFR at >\$15/t.

We initiate coverage with a Buy recommendation and a \$0.30/sh price target. The key price catalyst will be the exploration program and ability to extend mine life, higher Cu prices and further de leveraging the balance sheet. Management have stuck to the task since taking control during a difficult period and AIS is now poised to emerge as a genuine mid cap Cu producer.

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Valuation and Balance sheet

We value AIS at \$0.31/sh based on a 5yr mine life at Tritton in line with its current LOM plan. This is at a 10% dcf on an after capex, after tax basis. We assign a nominal \$20m to the exploration potential and prospectivity of its tenement package including Kurrajong and the current resource base of 320kt of Cu. We assign a nominal \$35m to its 70% interest in the Torrens JV which we view as conservative based on ARE mkt cap (\$30m) and percentage interest (30%).

| ASSET VALUATION | | |
|--------------------|------------|-------------|
| | A\$m | A\$/sh |
| Tritton (npv 10%) | 127 | 0.27 |
| Corporate | -19 | -0.04 |
| Hedging | 1 | 0.00 |
| Tax losses | 20 | 0.04 |
| Exploration | 20 | 0.04 |
| Torrens JV | 35 | 0.07 |
| Debt | -40 | -0.09 |
| Working Capital | -24 | -0.05 |
| Cash | 25 | 0.05 |
| Total @ 10% | 146 | 0.31 |

The debt of US\$30m is per last announcement and includes the arranger fee of US\$5m. The working capital debt facility has been drawn to US\$17m at end of March and with cash and receivable of \$25m at the end of March.

Our Cu price assumptions are FY'19 @ US\$3.13/lb, FY'20 and FY'21 @ US\$3.25/lb and LT @US\$3.40/lb. Our FX assumption is 0.76 FY'19 and then 0.78 LT.

We forecast similar EBITDA of \$45-50m in FY'18 and FY'19 but expect a significant reduction in the interest expense from \$22m in FY'18 to \$8m in FY'19 due to debt restructure.

At the end of FY'17 AIS had tax losses of \$288m so we assume no tax will be paid over the next 5yrs. We value these tax losses at \$20m as our NPV of Tritton is on an after tax basis.

The key risks to achieving our valuation are lower Cu price, lack of exploration success and normal operational issues associated with an underground mine.

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Tritton Copper Mine (AIS 100%)

Location and Infrastructure

The Tritton Copper Mine is located just out of Nyngan, a small town some 170km west of Dubbo in NSW. Access to the mine site is excellent and much of the workforce is housed in Nyngan either in company owned rentals or a modest 40 man camp.

The operations currently consist of two underground mines, Tritton and Murrumbidgee which both produce 1.1mtpa and 0.5mtpa respectively and feed a 1.6-1.8mtpa concentrator which is a conventional, crush, grind, flotation concentrate plant.

Copper recovery of 95% is high with approximately 100kt (dry) of Cu concentrate at an average grade of 23-24% Cu is produced each year. The concentrate is transported to a rail siding some 25km from site and railed ~700km to the deepwater Port Waratah, Newcastle.

In addition, there is a small 350tpa copper cement plant. Remnant copper from the Murrumbidgee heap leach pads is processed into a Cu cement. This operation is break even.

Production History

First production commenced in 2005 with the mine officially opened in April'05.

The table outlines the production history with production varying between 18.5kt to 31.1kt of Cu pa. The grade decreases with depth which was offset by the expansion of the concentrator from 800ktpa to 1.6mtpa.

| Tritton Operations Production History | 2005 CY | 2006 CY | 2007 CY | 6 months June 2008 | 2009 FY | 2010 FY | 2011 FY | 2012FY | 2013FY | 2014FY | 2015FY | 2016FY | 2017FY |
|--|---------|---------|---------|--------------------------|---------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Tonnes Mined | 364,893 | 790,940 | 680,439 | 343,606 | 932,532 | 911,539 | 1,160,476 | 1,261,000 | 1,289,000 | 1,573,000 | 1,640,000 | 1,700,860 | 1,467,244 |
| Grade Mined | 4.01 | 3.21 | 3.10 | 2.53 | 2.72 | 2.35 | 2.11 | 1.96 | 1.89 | 1.77 | 1.93 | 1.88 | 1.67 |
| Copper Mined | 14,695 | 23,801 | 21,100 | 8,685 | 25,404 | 21,451 | 24,486 | 24,725 | 24,360 | 27,772 | 31,761 | 31,930 | 24,515 |
| Recovery | 89.6 | 93.1 | 93.8 | 93.3 | 94.1 | 94.2 | 95.1 | 94.9 | 94.1 | 94.3 | 94.6 | 94.3 | 94.8 |
| Concentrate Tonne | 75,640 | 91,569 | 74,445 | 33,282 | 95,026 | 81,183 | 94,483 | 93,580 | 95,032 | 109,000 | 123,367 | 124,780 | 99,567 |
| Concentrate Grade | 25.43 | 25.21 | 24.92 | 25.15 | 24.95 | 24.91 | 25.0 | 24.9 | 24.1 | 24.0 | 24.4 | 24.0 | 23.4 |
| Copper in Concentrate | 19,296 | 23,088 | 18,549 | 8,372 | 24,111 | 20,847 | 23,354 | 23,375 | 22,860 | 26,422 | 30,061 | 30,122 | 23,404 |

Source: Aeris Resources Ltd

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Resource and Reserves

Tritton deposits were classified as Besshi style VMS deposits. Besshi systems are characterised as exhalative with banded sulphide zones with massive sulphide lenses. The dominant mineral is pyrite with lesser chalcopyrite, sphalerite and gold. Cu grades tend to average 1-3% Cu with strong lithological and structural control on mineralisation.

Current resources are 21mt @ 1.5% Cu for 320kt of Cu whilst reserves total 10.5mt @ 1.5% Cu for 150kt.

Table 2: Tritton Resources statement as at June'17

| Project | Cut-off (%Cu) | Measured | | | Indicated | | | Inferred | | | Total Resource | | |
|-------------------|---------------|--------------|--------------|---------------|---------------|--------------|---------------|--------------|--------------|---------------|----------------|--------------|---------------|
| | | Tonnes (kt) | Cu grade (%) | Cu metal (kt) | Tonnes (kt) | Cu grade (%) | Cu metal (kt) | Tonnes (kt) | Cu grade (%) | Cu metal (kt) | Tonnes (kt) | Cu grade (%) | Cu metal (kt) |
| Tritton | 0.6 | 3,700 | 1.8 | 69 | 3,700 | 1.3 | 49 | 2,000 | 1.2 | 20 | 9,400 | 1.5 | 140 |
| Tritton (pillars) | 0.6 | - | - | - | 490 | 2.6 | 13 | - | - | - | 490 | 2.6 | 13 |
| Murrawombie | 0.6 | - | - | - | 5,700 | 1.6 | 89 | 800 | 1.3 | 10 | 6,600 | 1.5 | 100 |
| Budgerigar | 0.6 | - | - | - | - | - | - | 1,600 | 1.5 | 20 | 1,600 | 1.5 | 20 |
| Budgerigar | 0.5 | - | - | - | 1,700 | 1.1 | 19 | 300 | 0.9 | 3 | 2,000 | 1.1 | 22 |
| Avoca Tank | 0.6 | - | - | - | 770 | 2.9 | 23 | 100 | 1.0 | 0 | 900 | 2.6 | 24 |
| Stockpile | - | 11 | 1.2 | 0 | - | - | - | - | - | - | 11 | 1.2 | 0 |
| Total | | 3,700 | 1.8 | 69 | 12,400 | 1.6 | 190 | 5,000 | 1.3 | 60 | 21,000 | 1.5 | 320 |

Source: Aeris Resources Ltd

Table 3: Tritton Reserve statement as at June'17

| Project | Type | Cut-off (%Cu) | Proven | | | Probable | | | Total Resource | | |
|--------------|-------------|---------------|--------------|--------------|---------------|--------------|--------------|---------------|----------------|--------------|---------------|
| | | | Tonnes (kt) | Cu grade (%) | Cu metal (kt) | Tonnes (kt) | Cu grade (%) | Cu metal (kt) | Tonnes (kt) | Cu grade (%) | Cu metal (kt) |
| Tritton | Underground | 1.1 & 1.5 | 3,000 | 1.7 | 51 | 2,200 | 1.4 | 31 | 5,200 | 1.6 | 82 |
| Murrawombie | Underground | 1.0 | 30 | 1.2 | 0.4 | 2,900 | 1.4 | 40 | 2,950 | 1.4 | 41 |
| Murrawombie | Open Pit | 1.0 | - | - | - | 1,600 | 0.9 | 14 | 1,600 | 0.9 | 14 |
| Avoca Tank | Underground | 1.2 | - | - | - | 700 | 2.5 | 18 | 700 | 2.5 | 18 |
| Stockpile | | | 10 | 1.2 | 0 | - | - | - | 10 | 1.3 | 0 |
| Total | | | 3,100 | 1.7 | 51 | 7,400 | 1.4 | 100 | 10,500 | 1.5 | 150 |

Source: Aeris Resources Ltd

The reserves are estimated using a Cu price of US\$3.20/lb and A\$0.79.

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Aeris Resources Ltd

(AIS \$0.15) Buy, Initiation of Coverage

Current Operations

The Tritton underground mine has been the base load of production for the past 12 years until the Murrawombie mine start in FY'17 replaced the exhausted N-E and Larsen mines. It uses longitudinal and transverse mining with cemented paste fill and is currently at a depth of 1,110m. Mining is owner operator with specialised contractors for drilling.

Ore reserves stop at a depth of 1,240m below surface whilst the resource extends a further 220m vertically. Mineralisation remains open at depth but a change in geology from 1,100 - 1,300m depth (vertically thick, short strike) reduces grade and combined with the lack of drilling results in no current reserves below 1,300m.

Development of Murrawombie Mine commenced in FY'17 with a production target of 0.5mt in FY'18 and similar in FY'19. It is a large mineralised system with structure controlling the higher grade areas. The addition of cemented backfill in the last Q allowed for more selective mining and AIS is now looking to construct a paste fill plant similar to that used at Tritton. This will allow production rates to increase whilst targeting higher grade areas.

The Tritton processing plant receives ore from all mines and is a conventional base metals flotation plant. It has been expanded in stages from its original 0.9mtpa capacity to current nominal capacity of 1.8mtpa principally to keep production steady as the grade decreased at Tritton. The concentrate quality is high with low impurity and a concentrate grade of 24% Cu, silver by product of +50 g/t Ag in the concentrate is payable. In addition, the Murrawombie ore has a gold credit of ~ 2 g/t Au in concentrate which is also payable.

The paste fill plant was constructed in CY'10 at cost of \$15m and allows for resource recoveries of ~90%.

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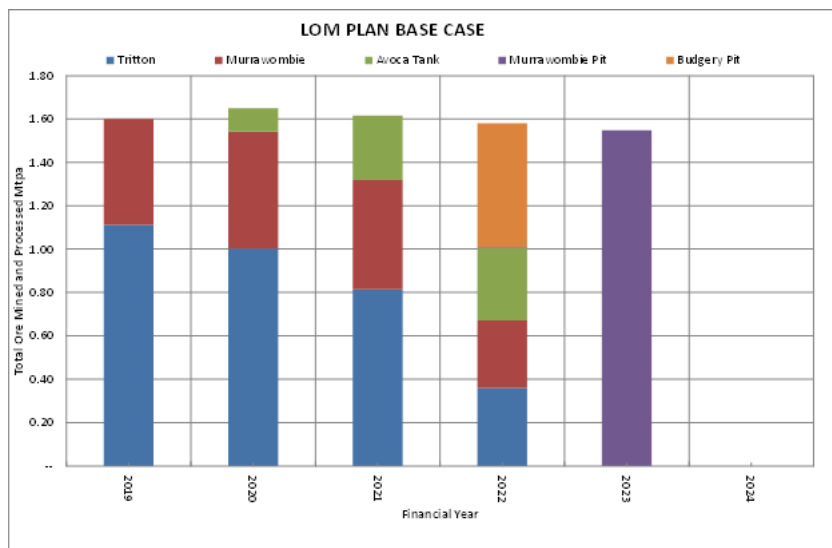


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Life of Mine Plan

The reserves form the basis of the LOM study which envisages average production of 24kt pa for the current ~ 5yr life. The feed will come from a variety of sources but the base load production will come from both the Tritton and Murrawombie underground which currently comprise some 82% of the total reserves.



Source: Aeris Resources Ltd

Avoca Tank is the highest grade ore @ 2.5% Cu but ~\$10m in upfront capital is required to access the top of the orebody which requires 12 months of mine development before ore is reached. The current mine design is conventional up-hole bench stopping

The Budgery open cut is not currently in reserves but we expect that over the next 12-18 months this 1.7mt @ 1.1% Cu Indicated resource will convert into a reserve and once Native Title negotiations are complete.

We also see scope for the additional life to be added at Murrawombie with further drilling at depth. It is structurally complex and initial mining encountered some issues on the 101 Lode with a carbonaceous shear on the hanging wall. The 102 lode is larger, deeper and the main target for mining.

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Peer Comparison

The table below compares the AIS to its peer group.

| Company | ASX code | Share Price A\$ | Market Cap A\$m | Cash A\$m | Other A\$m | Debt A\$m | EV A\$m | FY18F Prod. kt Cu | \$/t prod'n |
|------------------------------|----------|--------------------|--------------------|--------------|---------------|--------------|------------|----------------------|-------------|
| Recent M&A | | | | | | | | | |
| Avanco Resources Limited | AVB | \$0.17 | \$431.6 | \$1.6 | | \$0.0 | \$430.0 | 14.1 | \$30.5 |
| Finders Resources Limited | FND | \$0.23 | \$177.5 | \$2.0 | | \$67.6 | \$243.1 | 28.0 | \$8.7 |
| Production | | | | | | | | | |
| Aeris Resources Limited | AIS | \$0.15 | \$70.0 | \$24.5 | | \$65.0 | \$110.5 | 26.0 | \$4.2 |
| OZ Minerals Limited | OZL | \$9.10 | \$2,954.9 | \$64.6 | | \$0.0 | \$2,890.3 | 110.0 | \$26.3 |
| Sandfire Resources NL | SFR | \$8.87 | \$1,415.9 | \$188.0 | | \$0.0 | \$1,227.9 | 64.5 | \$19.0 |
| Metals X Limited | MLX | \$0.75 | \$477.5 | \$83.0 | \$75.0 | \$0.0 | \$319.5 | 20.0 | \$16.0 |
| Hillgrove Resources Limited | HGO | \$0.08 | \$47.3 | \$0.5 | | \$56.5 | \$103.3 | 23.0 | \$4.5 |
| Cudoco Limited | CDU | \$0.24 | \$92.7 | \$4.2 | | \$78.0 | \$166.5 | N/a | N/a |
| Copper Mountain Mining Corp. | C6C | \$1.17 | \$221.5 | \$0.0 | | \$0.4 | \$221.9 | 36.0 | \$6.2 |
| Development | | | | | | | | | |
| KGL Resources Limited | KGL | \$0.35 | \$83.8 | \$4.0 | | \$0.0 | \$79.8 | N/a | N/a |
| MOD Resources Limited | MOD | \$0.45 | \$99.5 | \$23.0 | | \$0.3 | \$76.8 | N/a | N/a |
| Talisman Mining Limited | TLM | \$0.28 | \$50.1 | \$11.0 | | \$14.4 | \$53.5 | N/a | N/a |
| Rex Minerals Limited | RXM | \$0.11 | \$35.0 | \$6.0 | | \$0.0 | \$29.0 | N/a | N/a |
| Regional Exploration | | | | | | | | | |
| Peel Mining Limited | PEX | \$0.43 | \$80.9 | \$5.6 | | \$0.0 | \$75.3 | N/a | N/a |
| Helix Resources Limited | HLX | \$0.04 | \$15.0 | \$1.6 | | \$0.0 | \$13.4 | N/a | N/a |
| Joint Venture | | | | | | | | | |
| Argonaut Resources NL | ARE | \$0.02 | \$31.1 | \$6.3 | | \$0.0 | \$24.8 | N/a | N/a |

Whilst we don't expect it to trade on similar metrics to the larger, lower cost producers such as SFR and OZL we believe a good comparison is with the Nifty mine located in WA and acquired by MLX in Sept'16.

It is interesting to note that recent M&A in the mid cap copper space with both AVB and FND being taken over at production metrics ranging from \$8.7/t to \$30.5/t in comparison to AIS at \$4/t.

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MLX is on track to produce ~ 20kt of Cu in FY'18 at an AISC of ~ \$4.00/lb but as you can see from the table below it trades at a significant discount. We attribute this to some of this to the Nifty potential/promise of increasing production to 40kt pa and the greater market recognition of MLX.

| Comparison - MLX (Nifty) v's AIS (Tritton) | | | |
|--|------------|-----------------------|--------------------------|
| | | Metals X Ltd (MLX) | Aeris Resources (AIS) |
| Share Price | \$/sh | 0.750 | 0.150 |
| Mkt Cap | \$m | 465 | 70 |
| Cash | \$m | 83 | 24 |
| Debt | | - | 64 |
| Other Assets | \$m | 75 | - |
| EV Cu asset | \$m | 307 | 110 |
| EV / t Cu Prod'n | \$/t | 17,100 | 4,200 |
| | | Nifty | Tritton |
| Cu prod'n | t pa | 18,000 | 26,000 |
| C1 cash costs | A\$/lb | 3.50 | 2.62 |
| AISC | A\$/lb | 4.00 | 3.46 |
| Price Rec'd | A\$/lb | 3.90 | 3.84 |
| EBITDA | A\$m | (10.00) | 50.00 |
| Mine Life | yrs | +6 | 5 |
| Cu reserve | kt Cu cont | 237 | 150 |
| Cu Resource | kt Cu cont | 622 | 320 |
| EV/Cu t rsv | \$/t | 13,000 | 7,300 |
| EV/Cu t rsc | \$/t | 4,900 | 3,400 |

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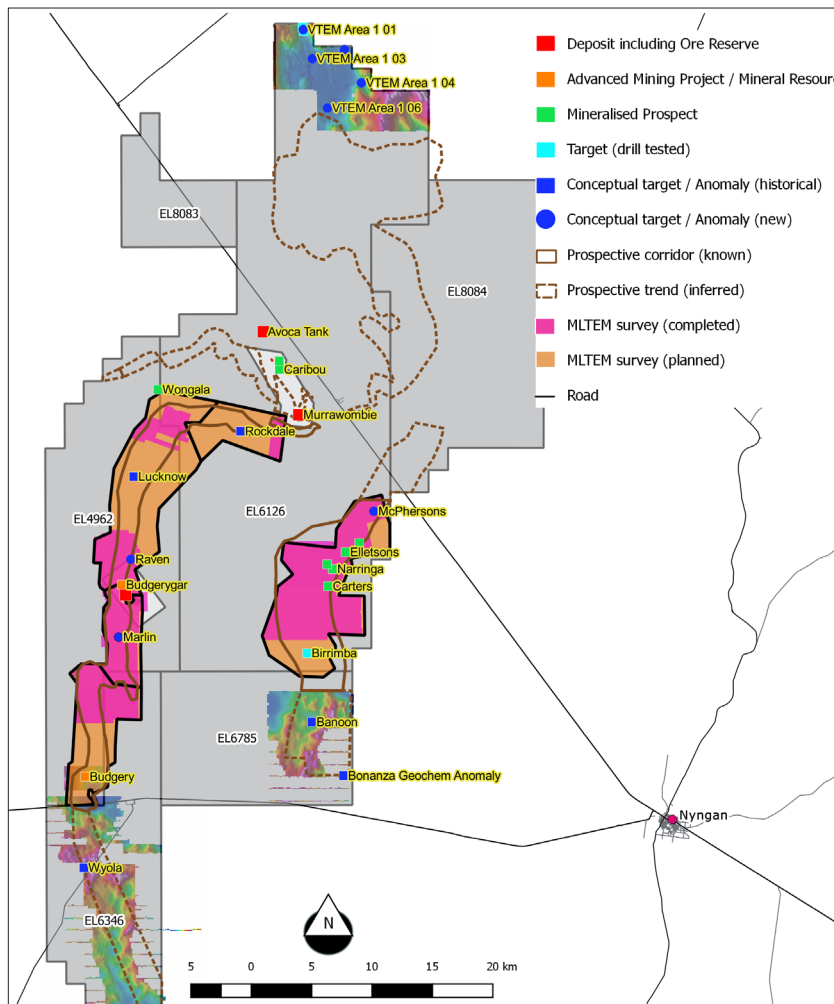
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Exploration Upside Is the Key

Lack of funds has significantly hampered AIS ability to effectively explore its large 1,800sqkm tenement package. We understand only 9 deep holes have been drilled at greenfields targets in the past 5 years and the area is significantly underexplored. It is mineral rich corridor with 750kt of Cu discovered within the Tritton tenement package since modern exploration commenced in the 1980's.

In July'16 AIS committed to a \$7.5m, three year, exploration program focussed on exploring for deeper/concealed mineralised systems within the know stratigraphic corridors using new high power moving loop EM which have the ability to look at >500m vertical depth. The target is to find a >10mt orebody.

The surveys have been conducted over the Tritton and Kurrajong stratigraphic corridor and is 90% complete with multiple EM conductors detected. Helicopter EM which can see to a vertical depth of ~200m identified 4 anomalies in the northern tenements. It has also completed regional mapping to define the prospective corridor across the northern half tenement and in the process has extended the prospective corridor by 65km and aerial VTEM is will be conducted over this corridor in FY'19.



Source: Aeris Resources Ltd

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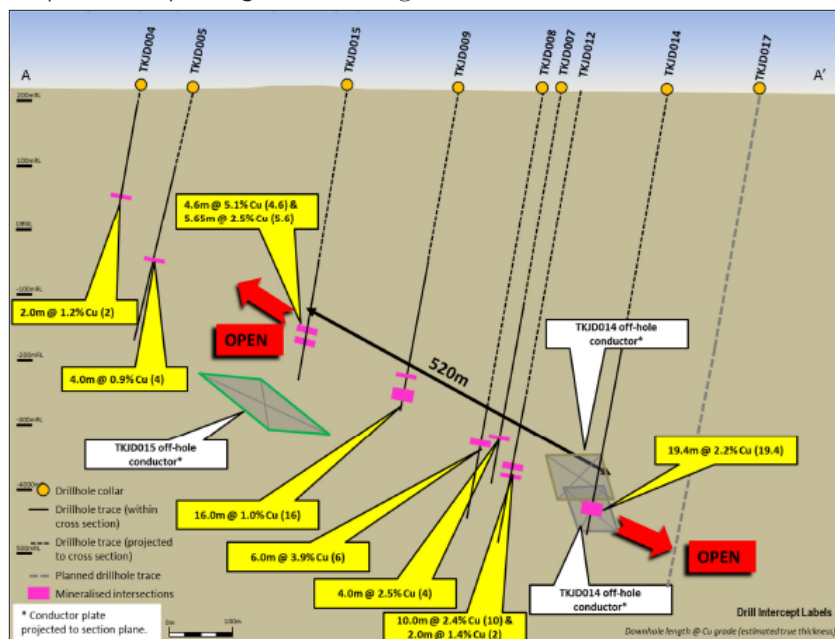
Aeris Resources Ltd

(AIS \$0.15) Buy, Initiation of Coverage

One prospect with previous drilling but a new EM plate target identified by this regional exploration strategy is at Kurrajong (20km east of Tritton). Recent drilling intersected;

- 19.4m @ 2.18%Cu, 0.3 g/t Au and 7 g/t Ag from 676.6m (TKJD014),
- 4.6m @ 5.09% Cu, 0.79 g/t Au and 17 g/t Ag from 403.4m (TKJD 015 Upper Lens),
- 5.65m @ 22.52% Cu, 0.2 g/t Au and 6 g/t Ag from 418m (TKJD 015 Lower Lens).

High grade Cu mineralisation has now been intersected over 500m down dip and mineralisation is open in all directions. Off hole anomalies detected from TKJD014 and TKJD 015 are similar in dimension and conductive strength to the EM plate corresponding to the 19.4m @ 2.18% Cu.



Source: Aeris Resources Ltd

Hole TKJD106, drilled up dip of hole TKJD 14 to test the off hole conductor and has intersected a 50m thick sulphide zone (sulphides <10%). Assays are awaited but AIS believes this intersection doesn't explain the strong off hole conductor.

In addition, hole TKJD017 to test 150m down plunge from the high grade mineralisation in TKJD 014 has commenced. Due to the drill success we expect AIS will look to drill a further ~ 20holes with the aim of a maiden resource in the next 12-15 months.

Brownfields exploration around the known deposits also shows significant potential with limited drilling outside of the mineralised envelope and potential for repeat of mineralisation along strike.

Tritton - Budgerygar - large mineralised system with sulphides traced over 2km and little drilling outside main deposits. A 600m strike window with little exploration and both deposits remain open at depth

Murrawonmbe - Is a >10mt mineral resource that remains open down dip

Budgery - Drill targets down dip from resource

Avoca Tank - highest grade deposit and remains open down plunge and along strike to the north.

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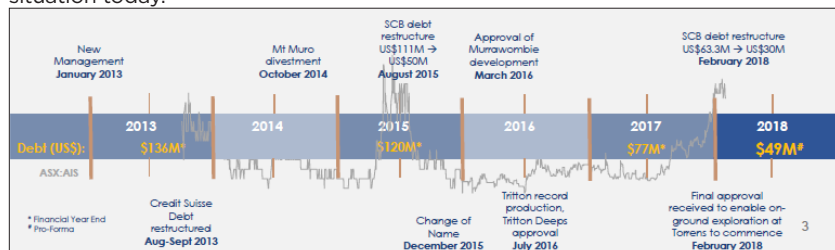
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Debt Restructure

The table shows the timeline of debt repayments/restructure and the current situation today.



Source: Aeris Resources Ltd

Some key points to note is:

- New mgt team in Dec'12 Debt was US\$94m to Standard Chartered Bank ('SCB') and US\$42m to Credit Suisse as a silver pre payment of 1.9moz that was out of the money.
- Aug'13, Mt Muro placed on care and maintenance. Credit Suisse paid US\$7.5m in cash and US\$7m in convertible note (release parent from guarantee) .
- Sept'13 restructure copper swap facility with SCB from 450t per month to 69.9t per month repayment profile extended to 5 yrs.
- June'14, Close out of Copper Swap facility and Bridge to debt restructure. Bridge loan US\$113.6m.
- Aug'15 SCB debt restructure from US\$111m to US\$50m (7yr term with bullet repayment) and issue of redeemable con preference shares (60% of AIS issued capital) at a nominal value of US\$40m. Pacific Alliance Group ('PAG') enter US\$25m revolving priority loan note facility plus Convertible Preference shares issue to PAG SPV (15% of AIS post refinancing fully diluted).

In Feb'18 AIS announced a three part restructuring which reduced senior debt by 53% to US\$30m, reduced total share capital by 50% for \$1 and cancelled the Copper Price Participation agreement with SCB.

The restructure involved:

- Sale of SCB senior debt to Special Portfolio Opportunity V Ltd ('SPOV') a subsidiary of fund managed by PAG. SPOV is provider of AIS's existing working capital facility.
- SPOV and AIS agree to reduce Senior Debt from US\$63.3m to US\$30m (includes US\$5m Arranger Fee) Senior debt has a term of 2yrs and interest rate of 12.5%. However, if AIS has not reduced the Senior Debt by a minimum of US\$20m within the first six months, the interest rate increased by an additional 3% pa on the balance above US\$10m.
- The US\$5m arranger fee can be paid in either shares or an increase in the Senior Debt facility at AIS' election.

Table 1 - Pro Forma Debt Structure

| Item | 31 Dec 2017 (US\$m) | Pro Forma (US\$m) | Movement (US\$m) |
|---------------------------------------|---------------------|--------------------|------------------|
| Senior Debt Facility [#] | 63.3 | 25.0 | -38.3 |
| Arranger Fee* | 0.0 | 5.0 | 5.0 |
| Total Senior Debt | 63.3 | 30.0 | -33.3 |
| Working Capital Facility [#] | 19.5 | 17.9 ^{##} | -1.6 |
| Other Debt [#] | 1.3 | 1.3 | 0.0 |
| Total Debt | 84.1 | 49.2 | -34.9 |

[#] Includes capitalised interest ^{##} US\$1.6 million repaid on 26 February 2018

* Aeris can elect to repay the US\$5 million Arranger Fee through the issuance of new shares within 6 months of completion of the restructure, at the lower of the 30 day VWAP prior to the date of signing the Restructuring Agreement or the 30 day VWAP prior to the election to convert (For example, if 30 day VWAP was \$0.13 per share and A\$/US\$ exchange rate was 0.7850, 48,995,590 shares would be issued in lieu of paying the US\$5 million Arranger Fee).

Source: Aeris Resources Ltd

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Associated with the restructure SCB agreed to cancel 467m of its 560m convertible redeemable preference shares for \$1. Total number of shares on issue, on a fully diluted basis reduces by 50% from 934m to 467m.

SPOV also agreed to convert its current 140m convertible preference shares to ordinary shares.

Table 2 - Pro Forma Issued Capital (fully diluted)

| Item | Current (m) | Pro Forma** (m) | Movement (m) |
|--------------------------------------|--------------|-----------------|---------------|
| Ordinary Shares | 140.1 | 280.2 | 140.1 |
| Preference Shares | 700.6 | 93.4 | -607.2 |
| Management Options | 93.4 | 93.4 | 0.0 |
| Fully Diluted Shares on Issue | 934.1 | 467.0 | -467.1 |

**excludes any additional shares to be issued if Aeris elects to repay the US\$5 million Arranger Fee through the issuance of new shares (For example, if 30-day VWAP was \$0.13 per share and A\$/US\$ exchange rate was 0.7850, 48,995,590 shares would be issued in lieu of paying the US\$5 million Arranger Fee).

Furthermore, the Price Participation Agreement held by SCB as part of the 2015 debt restructure, will be cancelled for \$1, which now provides Aeris with 100% exposure to increases in the copper price above A\$8,000/t.

Source: Aeris Resources Ltd

In addition the Price Participation Agreement held by SCB as part of the 2015 debt restructure will be cancelled for \$1. As part of the restructure AIS has hedged 12kt of Cu @ A\$8,670/t (A\$3.93/lb) with deliveries of 1kt per month for a year.

SPOV working capital facility size maintained at US\$25m (drawn to US\$15.5m excluding capitalised interest). Existing environmental bond facility of A\$10m provided by SCB remains in place and guaranteed by SPOV for 3 yrs. AIS to cashback bond over 3 yrs.

This debt restructure delivered significant benefits for shareholders including;

- Significantly reduces debt levels,
- Simplified capital structure and a 50% reduction in total shares on issue,
- Provides greater financial flexibility to focus on its key assets and look to grow the business through M&A etc.

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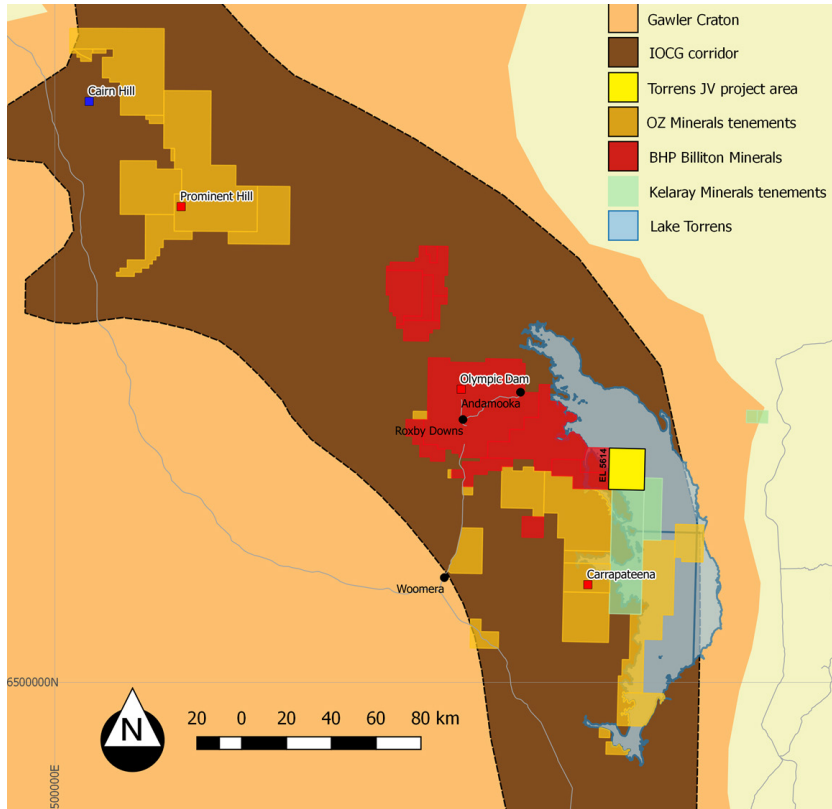
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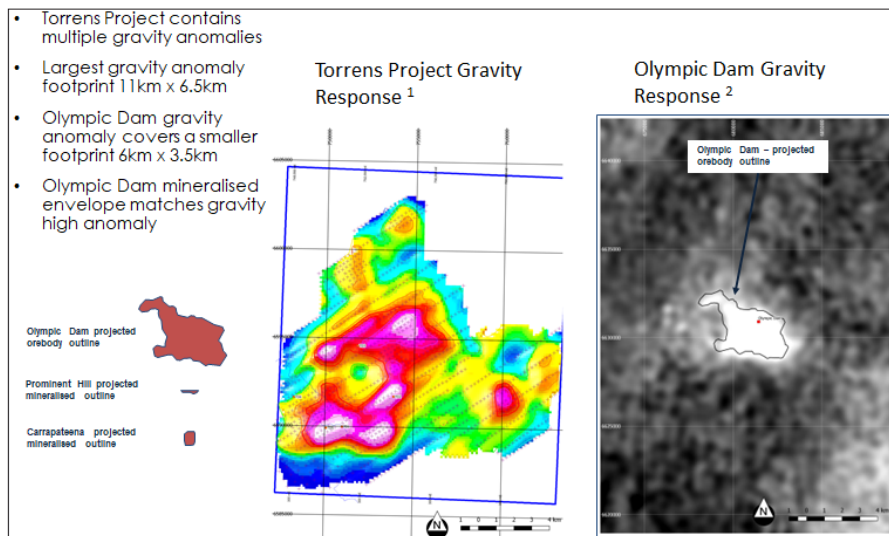
Torren Project (AIS 70%, ARE 30%)

The project is located over Lake Torrens in Sth Australia, approximately 600km NNW from Adelaide. The tenement covers 300sqkm and is located - 50km from Carrapatenna and 75km from Olympic Dam deposits.



Source: Aeris Resources Ltd

The project is defined by strong coincident gravity and magnetic anomalies which are considered precursor to defining an Iron Oxide Copper Gold ('IOCG') deposit. The project contains large gravity footprint with the largest 11km x 6.5km.



Source: Aeris Resources Ltd

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Aeris Resources Ltd

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Aboriginal heritage claims suspended all on ground exploration in Mar'08 and it has taken ARE some 10 yrs to work through all the issues but now applications have been approved (Native Title, Heritage approval) including a 70 hole drill program.

Thus far 8-10 conceptual geophysical targets have been identified and the plan is for multiple stage drill campaign, say ~ 6 holes per campaign and 25-30 holes in total with each drillhole between 700-1,500m deep. We understand AIS has budgeted to spent \$3.5m in FY'19 (total JV spend of \$5m).

ARE has a market capitalisation of ~ \$30m with this JV and a Copper project in Zambia its two key assets. We believe the market is ascribing most value to this JV and hence our \$35m valuation for AIS 70% interest is conservative.

Directors

Mr Andre Labuschagne (Executive Chairman)

Andre is an experienced mining executive with a career spanning over 25 years across operations in Australia Fiji, Indonesia and Seth Africa. Andre has held various corporate and operational roles in companies including Norton Gold Fields, Emperor Gold Mines, DRD Gold and Anglo Ashanti. Andre holds a Bachelor of Commerce.

Mr Alistair Morrison (Non Executive Director)

Alistair is a highly experienced international banker and has worked in private equity for over 30 years. He was founding Managing Director of Standard Chartered Private Equity and has investment experience across a wide range of industries.

Mr Michele Muscillo (Non Executive Director)

Michele is a Partner specialising in corporate law with HopgoodGanim Lawyers. Michele has acted on a variety of corporate transactions, including IPO, takeovers and acquisitions.

Mr Marcus Derwin (Non Executive Director)

Marcus is a highly experienced corporate executive and Board director with an extensive background in corporate restructuring. He brings international experience, across a diverse range of industry sectors.

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Directors Shareholdings

| | Shares | Options |
|-------------------------|---------|------------|
| A Labuschagne (Ex Chrm) | 140,000 | 37,364,244 |
| A Morrison (NED) | nil | nil |
| M Muscillo (NED) | nil | nil |
| M Derwin (NED) | nil | nil |

Top 20 Shareholders

| | Shareholder | as at 29 th March 2018 | |
|----|--------------------------|-----------------------------------|--------------|
| | | Shares (m) | (%) |
| 1 | PAG | 140.12 | 50.00 |
| 2 | Bain Capital Credit | 21.47 | 7.66 |
| 3 | Glencore International | 13.15 | 4.69 |
| 4 | DGJ Keet Investments | 13.09 | 4.67 |
| 5 | Mr Gerald AD Keet | 8.97 | 3.20 |
| 6 | Ruffer | 6.47 | 2.31 |
| 7 | Credit Suisse | 6.18 | 2.21 |
| 8 | Mr Andrew C Laurenson | 2.80 | 1.00 |
| 9 | Mr & Mrs Milan Jerkovic | 2.72 | 0.97 |
| 10 | Mr Mark A Behne | 2.40 | 0.86 |
| 11 | Merricks Capital | 2.23 | 0.80 |
| 12 | Mr & Mrs Michael Coghlan | 2.21 | 0.79 |
| 13 | Tudor Court | 2.19 | 0.78 |
| 14 | Mr Glenn R Stedman | 2.10 | 0.75 |
| 15 | Mr Milan Jerkovic | 1.65 | 0.59 |
| 16 | Mr John Rapuano | 1.60 | 0.57 |
| 17 | Mr Bastiaan Scheepers | 1.35 | 0.48 |
| 18 | Mr & Mrs James P Karlson | 1.24 | 0.44 |
| 19 | Mr Louie Borg | 1.00 | 0.36 |
| 20 | Mr Lawrence Borg | 1.00 | 0.36 |
| | Total | 233.93 | 83.48 |

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| Jay Hughes - Executive Director | +61 8 9488 1406 |
| Russell Kane - Executive Director | +61 8 9488 1426 |
| Simon Yeo - Executive Director | +61 8 9488 1404 |
| Timothy Bunney - Executive Director | +61 8 9488 1461 |
| Peter Schwarzbach - Executive Director | +61 8 9488 1492 |
| Stacy Kitsantas - Institutional Adviser | +61 8 9488 1486 |

Private Client Advisers

| | |
|---|-----------------|
| Chris Webster - Head of Private Clients | +61 8 9488 1412 |
| Ben Statham - Executive Director | +61 8 9488 1417 |
| Brian Bates - Executive Director | +61 8 9346 0314 |
| Cameron Murray - Executive Director | +61 8 9488 1440 |
| James Mackie - Executive Director | +61 8 9488 1416 |
| Lucas Robinson - Executive Director | +61 8 9488 1424 |
| Ryan Stewart - Executive Director | +61 8 9488 1441 |
| Tim Lyons - Executive Director | +61 8 9346 0324 |
| Brett Stapleton - Associate Director | +61 8 9488 1435 |
| Giles McCaw - Associate Director | +61 8 9488 1462 |
| Michael Bowden - Associate Director | +61 8 9346 0307 |
| Richard Gardner - Associate Director | +61 8 9488 1444 |
| Paul Berson - Associate Director | +61 8 9346 0314 |
| Paul Cooper - Associate Director | +61 8 9346 0316 |
| Phil Grant - Associate Director | +61 8 9346 0306 |
| Lauren Walker - Investment Adviser | +61 8 9488 1495 |
| Michael Bartley - Investment Adviser | +61 8 9346 0352 |
| Steve Wood - Investment Adviser | +61 8 9346 0305 |
| Tom Kenny - Associate Adviser | +61 8 9488 1431 |

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