

BATTERY MINERALS LTD (BAT)

Funding pathway emerging for Montepuez

Battery Minerals Limited (BAT) has agreed terms for a US\$30M debt and equity package with Resource Capital Funds (RCF). The term sheet is for a US\$25M term loan with a 2% establishment fee, 10%pa interest rate over 3 years and 333M options, and US\$5M equity. Among other conditions, the deal is also subject to BAT raising at least another A\$28.3M through equity.

Based on BAT's May Investor Presentation, in which it gives an indication of planned expenditure to complete the construction of Montepuez Stage 1, as well as fund ongoing resource drilling, Balama DFS work, VAT payments and corporate overheads, we model capital requirement for A\$85M (up from A\$70M). Given the total RCF deal equals ~A\$40M, we envisage BAT needing to raise a further ~\$45M to satisfy RCF.

Balama resource doubles

BAT has doubled its Balama resource following a 1,600m diamond drilling campaign. The large increase to 33Mt @ 10.2% TGC for 3.36Mt of contained graphite comes as no surprise given the 43Mt - 78Mt @ 9% - 13% TGC exploration target for the project. BAT has released a scoping study for Balama where it assumed a mining inventory based on the indicated component of the previous resource, which comprised 836kt of contained graphite. Given the update resource now contains 2.7Mt of contained graphite in indicated, a 3x increase, one could expect this to have an impact on the Balama mine inventory in the upcoming feasibility study (expected mid-2018). The Scoping Study anticipates 53-55ktpa of 97% TGC graphite concentrate production over a 10 year mine life. Mine grade of 10.6% TGC and recoveries of 93% have been assumed. We see potential for annual production of 55ktpa. However, the grade tonnage curve for the updated Balama resource suggests grades in excess of 15% TGC could be achieved. While we have not included this in our base case valuation for Balama, we model a price target scenario where this may occur and eagerly await the Balama DFS to see if a mined grade of 15% TGC is achievable, which could yield 75ktpa.

Updated Price Target and Maintain Speculative Buy

In our last note, we said that funding and the mining licence were the only outstanding pieces of the puzzle. The Government of Mozambique has since granted the Montepuez Mining License and now funding appears to be progressing well. However, these have not been without delay and have affected timing for first shipment from Montepuez. BAT now believes first concentrate shipment will occur in the JunQ '19. Given the tight deadline for execution of the RCF funding deal, we see risk of further slippage, remain conservative and model shipping in the SepQ. The BAT May Investor Presentation also mentions an increase in Montepuez capex on account of FX movements and highlights an A\$8.4M VAT provision (previously overlook in our model).

With the increased capex, project delays and equity requirement leading to further dilution, we have lowered our valuation for BAT to 21cps (from 28cps), with a 12-month price target of 19cps (down from 26cps). BAT still appears severely undervalued and is a Speculative Buy, with catalysts like the Balama DFS and further construction updates to come over the coming quarters.

14 May 2018

Share Price	\$0.062
Valuation	\$0.21
Price Target (12 month)	\$0.19

Brief Business Description:

An advanced stage mineral exploration and development company focussed on the Montepuez Graphite Project in Mozambique. BAT aim to produce anode material for lithium-ion batteries from spherical graphite.

Hartleys Brief Investment Conclusion

Low cost, East African graphite developer with proven management. Four binding offtake deals have been signed.

Chairman & Executives

Jeff Dowling (Non-exec Chairman)
David Flanagan (Managing Director)

Major Shareholders

Farjoy Pty Ltd 12.5%

Company Address

10 Ord Street
West Perth, WA, 6005

Issued Capital 767.7m
- fully diluted 817.3m

Market Cap A\$47.6m
- fully diluted A\$50.7m

Cash (30 Apr 18e) A\$11.0m

Debt (31 Mar 18) A\$0.0m

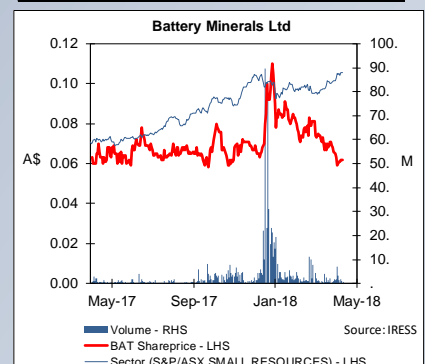
EV A\$36.6m

EV/Resource A\$4.5/t

EV/Reserve A\$10.1/t

Prelim. (A\$m)	CY19e	CY20e	CY21e
Prod. 96% Flake	0.025	0.062	0.082
Op Cash Flw	12.0	37.7	51.3
Norm NPAT	-3.18	13.7	20.4
CF/Share (cps)	0.48	1.787	2.436
EPS (cps)	-0.20	0.857	1.277
P/E	-31.1	7.2	4.9

	Mt	TGC Cont.	Graph.
Resources	105.9	7.67%	8.2 Mt
Reserve	41.4	8.80%	3.6 Mt



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Hartleys has assisted in the completion of capital raisings in the past 12 months for Battery Minerals Limited ("Battery") for which it has earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Battery for which it has earned fees and continues to earn fees. Hartleys has a beneficial interest in 4 million options in Battery.

SUMMARY MODEL

Battery Minerals Ltd								Share Price	
BAT								\$0.062	
Key Market Information									
Share Price								\$0.062	
Market Capitalisation - ordinary								A\$51m	
Net Cash (Debt)								\$11.0m	
Market Capitalisation - fully diluted								A\$51m	
EV								A\$40m	
Issued Capital								767.7m	
Options								49.6	
Issued Capital (diluted for options)								817.3m	
Issued Capital (diluted inc. options and new capital)								1653.7m	
Valuation								\$0.21	
12month price target								\$0.19	
P&L	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22		
Net Revenue	A\$m	0.0	0.0	28.8	71.5	93.4	177.1		
Total Costs	A\$m	-5.8	-4.9	-16.2	-32.9	-41.7	-69.3		
EBITDA	A\$m	-5.8	-4.9	12.6	38.6	51.8	107.8		
- margin		-	-	44%	54%	55%	61%		
Depreciation/Amort	A\$m	0.0	-4.8	-11.4	-15.8	-18.9	-24.2		
EBIT	A\$m	-5.8	-9.7	1.2	22.8	32.8	83.6		
Net Interest	A\$m	0.0	0.2	-4.4	-4.6	-5.7	-6.1		
Pre-Tax Profit	A\$m	-5.7	-9.4	-3.2	18.2	27.2	77.5		
Tax Expense	A\$m	0.0	0.0	0.0	-4.6	-6.8	-19.4		
Normalised NPAT	A\$m	-5.7	-9.4	-3.2	13.7	20.4	58.1		
Abnormal Items	A\$m	0.0	0.0	0.0	0.0	0.0	0.0		
Reported Profit	A\$m	-5.7	-9.4	-3.2	13.7	20.4	58.1		
Minority	A\$m	0.0	0.0	0.0	0.0	0.0	0.0		
Profit Attrib	A\$m	-5.7	-9.4	-3.2	13.7	20.4	58.1		
Balance Sheet	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22		
Cash	A\$m	7.7	25.7	17.3	12.8	17.0	60.2		
Other Current Assets	A\$m	0.7	0.0	3.6	8.8	11.5	21.8		
Total Current Assets	A\$m	8.4	25.7	20.9	21.7	28.5	82.0		
Property, Plant & Equip.	A\$m	0.6	51.5	108.8	98.9	159.1	138.8		
Exploration	A\$m	10.4	17.4	20.7	22.7	24.7	26.7		
Investments/other	A\$m	0.0	0.0	0.0	0.0	0.0	0.0		
Tot Non-Curr. Assets	A\$m	11.0	68.9	129.4	121.6	183.8	165.5		
Total Assets	A\$m	19.5	94.7	150.3	143.3	212.3	247.5		
Short Term Borrowings	A\$m	-	-	-	-	-	-		
Other	A\$m	1.6	1.3	4.2	8.5	10.8	17.9		
Total Curr. Liabilities	A\$m	1.6	1.3	4.2	8.5	10.8	17.9		
Long Term Borrowings	A\$m	-	33.2	60.7	35.7	82.0	52.0		
Other	A\$m	-	-	-	-	-	-		
Total Non-Curr. Liabil.	A\$m	-	33.2	60.7	35.7	82.0	52.0		
Total Liabilities	A\$m	1.6	34.4	64.8	44.1	92.8	69.9		
Net Assets	A\$m	17.8	60.3	85.5	99.2	119.5	177.6		
Net Debt	A\$m	-7.7	7.4	43.3	22.8	65.0	-8.2		
Cashflow	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22		
Operating Cashflow	A\$m	-3.8	-4.5	12.0	37.7	51.3	104.6		
Income Tax Paid	A\$m	0.0	0.0	0.0	-4.6	-6.8	-19.4		
Interest & Other	A\$m	0.0	0.2	-4.4	-4.6	-5.7	-6.1		
Operating Activities	A\$m	-3.7	-4.3	7.6	28.5	38.9	79.1		
Property, Plant & Equip.	A\$m	-0.4	-55.7	-68.6	-6.0	-79.0	-4.0		
Exploration and Devel.	A\$m	-4.2	-7.0	-3.3	-2.0	-2.0	-2.0		
Other	A\$m	0.3	0.0	8.4	0.0	0.0	0.0		
Investment Activities	A\$m	-4.3	-62.7	-63.5	-8.0	-81.0	-6.0		
Borrowings	A\$m	0.0	33.2	27.5	-25.0	46.4	-30.0		
Equity or "tbc capital"	A\$m	6.4	51.9	20.0	0.0	0.0	0.0		
Dividends Paid	A\$m	0.0	0.0	0.0	0.0	0.0	0.0		
Financing Activities	A\$m	6.0	85.0	47.5	-25.0	46.4	-30.0		
Net Cashflow	A\$m	-2.0	18.0	-8.4	-4.5	4.2	43.1		
Shares	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22		
Ordinary Shares - End	m	759.0	1595.2	1595.4	1595.4	1595.4	1595.4		
Ordinary Shares - Wted	m	592.3	1177.1	1595.3	1595.4	1595.4	1595.4		
Diluted Shares - Wted	m	617.6	1177.2	1595.4	1595.4	1595.4	1595.4		
Ratio Analysis	Unit	31 Dec 17	31 Dec 18	31 Dec 19	31 Dec 20	31 Dec 21	31 Dec 22		
Cashflow Per Share	A\$ cp	-0.6	-0.4	0.5	1.8	2.4	5.0		
Cashflow Multiple	x	-9.8	-17.1	13.0	3.5	2.5	1.2		
Earnings Per Share	A\$ cp	-1.0	-0.8	-0.2	0.9	1.3	3.6		
Price to Earnings Ratio	x	-6.4	-7.7	-31.1	7.2	4.9	1.7		
Dividends Per Share	AUD	-	-	-	-	-	-		
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Net Debt / Net Debt + Equity	%	-76%	11%	34%	19%	35%	-5%		
Interest Cover	X	159.2	38.8	0.3	5.0	5.8	13.6		
Return on Equity	%	na	na	na	14%	17%	33%		

14 May 2018			
Speculative Buy			
Directors		Company Information	
Jeff Dowling (Non-exec Chairman)		10 Ord Street	
David Flanagan (Managing Director)		West Perth, WA, 6005	
Gilbert George (Non-exec)		Australia	
Brett Smith (Non-exec)		Ph +61 8 9148 1000	
Paul Glasson (Non-exec)			
Ivy Chen (Non-exec)		www.batteryminerals.com	
Top Shareholders		Ordinary	m sh.
Farjor Pty Ltd		95.8	12.5%
Reserves & Resources		Mt	TGC (%)
TOTAL MONTEPEZ RESERVE (4% TGC)		41.4	8.8%
TOTAL MONTEPEZ RESOURCE (2.5% TGC) - Elephant & Buffalo		105.9	7.7%
Indicated		54.2	8.3%
Inferred		51.7	7.0%
TOTAL BALAMA RESOURCE (6% TGC)		32.9	10.2%
Indicated		26.6	10.3%
Inferred		6.3	10.0%
Lion (Montepuez) Resource (6% TGC)		61.6	10.3%
Montepuez Production Summary		Unit	31 Dec 17
Processed Mill Throughput		Mt	-
Mined TGC Grade		%	-
Produced 96.7% TGC Flake (Total)		Mt	-
Mine Life		yr	-
Capex		A\$m	-2.0
Balama Production Summary		Unit	31 Dec 17
Processed Mill Throughput		Mt	-
Mined TGC Grade		%	-
Produced 96.7% TGC Flake (Total)		Mt	-
Mine Life		yr	-
Capex		A\$m	-2.0
Mine Costs (95% attributed)		Unit	31 Dec 17
Cost per milled tonne		\$A/t	-
Total Cash Costs (Mine)		\$A/t	-
C1: Operating Cash Cost = (a)		\$A/t	-
(a) + Royalty = (b)		\$A/t	-
C2: (a) + depreciation & amortisation = (c)		\$A/t	-
(a) + actual cash for development = (d)		\$A/t	-
C3: (c) + Royalty		\$A/t	-
(d) + Royalty		\$A/t	-
Total cash costs as per P&L		\$A/t	-
All in Sustaining Costs (AISC)		\$A/t	-
Price Assumptions		Unit	31 Dec 17
AUD/USD		US\$/A\$	0.77
Montepuez Graphite 96.7% TGC Flake		US\$/t	930.65
Balama Graphite 96.5% TGC Flake		US\$/t	1305.33
Hedging		Unit	31 Dec 17
none			
Sensitivity Analysis		Valuation	FY20 NPAT
Base Case		0.21	13.7
Spot Prices		0.21 (1.9%)	13.6 (-0.7%)
Spot USD/AUD 0.75, Basket Flake \$924/t			
AUD/USD +/-10%		0.19 / 0.22 (-7.7% / 9.4%)	11.2 / 16.7 (-18.0% / 21.9%)
Montepuez Graphite (Total Basket Price) +/-10%		0.20 / 0.20 (-3.6% / -3.6%)	13.7 / 13.7 (0.0% / 0.0%)
Production +/-10%		0.23 / 0.18 (10.7% / -10.7%)	17.0 / 10.4 (24.3% / -24.3%)
Operating Costs +/-10%		0.19 / 0.22 (-5.6% / 5.6%)	11.7 / 15.6 (-14.2% / 14.2%)
Unpaid Capital			
Year Expires		No. (m)	\$m
31-Dec-17		0.0	0.0
31-Dec-18		0.0	0.0
31-Dec-19		0.0	0.0
31-Dec-20		2.5	0.2
31-Dec-21		25.6	4.3
31-Dec-22		21.5	3.0
31-Dec-23		0.0	0.0
TOTAL		49.6	7.6
Valuation		\$m	\$/shr
95% Montepuez (pre-tax NAV at disc. rate of 12%)		246.1	0.15
95% Balama (pre-tax NAV at disc. rate of 14%)		124.7	0.08
Other Assets/Exploration		75.0	0.05
Forwards		0.0	0.00
Corporate Overheads		-36.4	-0.02
Net Cash (Debt)		11.0	0.01
Tax (NPV future liability)		-86.5	-0.05
Options & Other Equity		5.4	0.00
TOTAL		339.4	0.21

Analyst: Paul Howard
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tbc capital could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.
Sources: IRESS, Company Information, Hartleys Research

Last Updated: 14/05/2018

VALUATION

Our sum of parts valuation for BAT is based on discounted cashflows for the Montepuez Graphite Project and the Balama Central Project. We model cashflows for the projects with discount rates appropriate for the stage of development (12% for DFS/VES and 14% for Scoping Study). We model Montepuez in line with Company guidance, presentations and the Value Engineering Study (VES). Our model assumes full operations (Stage 1) commence in the JunQ CY2019 with 40ktpa concentrate produced, and transitions to Stage 2 100ktpa by FY22, with a modest increase in capex of US\$27M. We assume 10 years mining 12% TGC material.

We model Balama Central in line with the Scoping Study, with an added contingency for capital. Our Balama basket price is slightly higher than BAT, based on comparison of peer basket prices. While BAT expects to be producing from Balama by 2021, we model this to occur in 2022 as we would expect it to be funded through operational cashflow out of Montepuez, which doesn't achieve full ramp up until that year. The grade tonnage curve for the recently updated Balama resource suggests grades in excess of 15% TGC could be achieved. While we have not included this in our base case valuation for Balama, we model a price target scenario where this may occur and eagerly await the Balama DFS to see if 15% TGC is achievable.

We ascribe a nominal A\$75M for exploration upside (which includes the low grade, 10 year option at Montepuez) across BAT's portfolio, given the large resources not in the current mine plans for both Montepuez and Balama.

Our valuation for BAT is 21cps

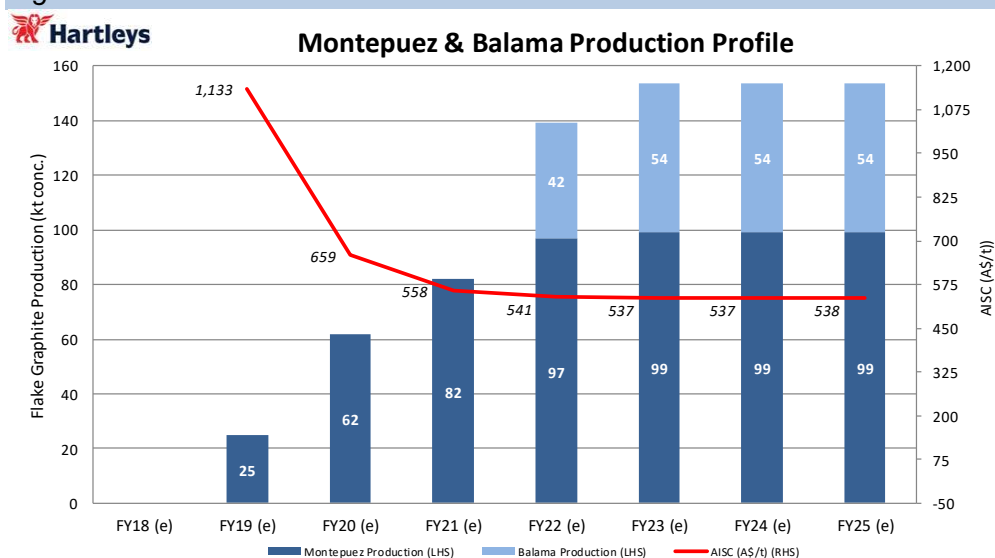
Fig. 1: Hartleys Sum of Parts Valuation for BAT

Valuation	\$m	\$/shr
95% Montepuez (pre-tax NAV at disc. rate of 12%)	246.1	0.15
95% Balama (pre-tax NAV at disc. rate of 14%)	124.7	0.08
Other Assets/Exploration	75.0	0.05
Forwards	0.0	0.00
Corporate Overheads	-36.4	-0.02
Net Cash (Debt)	11.0	0.01
Tax (NPV future liability)	-86.5	-0.05
Options & Other Equity	5.4	0.00
TOTAL	339.4	0.21

Source: Hartleys estimates

We have updated our production profile for BAT, given the forecast delays in first shipment

Fig. 2: BAT's Production Profile



Source: Hartleys estimates

PRICE TARGET

Our price target is built around a base case scenario of 40Ktpa production at Montepuez in FY19, increasing to ~100Ktpa by FY22, and 40ktpa at Balama from 2022, increasing to 50Ktpa. We have included weighting for the base case at consensus and spot pricing and also model a number of scenarios given the offtake and funding complexities within the graphite space. Our 12-month price target is \$0.19 (down from \$0.26), based on a blended scenario analysis.

The addition of three scenarios (Montepuez Stage 1 only, Montepuez Stage 1 & 2 only) and Montepuez Stage 1 & 2 as per the VES with potential upside at Balama) has negatively impacted our price target but paints a clear picture as to what a potential valuation would look like should one of these scenarios become reality.

Our 12-month price target for BAT is 19cps

Fig. 3: Price Target

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case, assuming significant equity dilution	40%	\$0.22	\$0.25
NPV at spot commodity and fx prices	10%	\$0.22	\$0.25
Montepuez Stage 1 only (no stage 2 or Balama)	15%	\$0.08	\$0.09
Montepuez Stage 1 & 2 only (no Balama)	10%	\$0.17	\$0.19
Montepuez as per VES & Balama upside (75ktpa)	10%	\$0.26	\$0.30
Net cash	15%	\$0.01	\$0.01
Risk weighted composite			\$0.17
12 Months Price Target			\$0.19
Shareprice - Last		\$0.062	
12 mth total return (% to 12mth target + dividend)			211%

Source: Hartleys Estimate

Fig. 4: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Graphite prices are higher than BAT's estimates	Med	High	Our valuation is sensitive to commodity price assumptions.
Further offtake agreements past 2022 to accommodate Balama	Med	Extreme	Without further past year 3 offtake, the projects will struggle
Economic mine life of 10 years	Low	Med (although also could be upside)	We believe our mine life assumptions are realistic based on current resources. Mine life could be increased should further high grade resources be discovered.
Debt funding	Med	Extreme	We assume the RCF debt funding for Montepuez will proceed.
Equity funding	High	Extreme	We assume BAT can raise the equity to fund Montepuez
First production	High	Moderate	We assume first full-scale Stage 1 production in mid-CY19

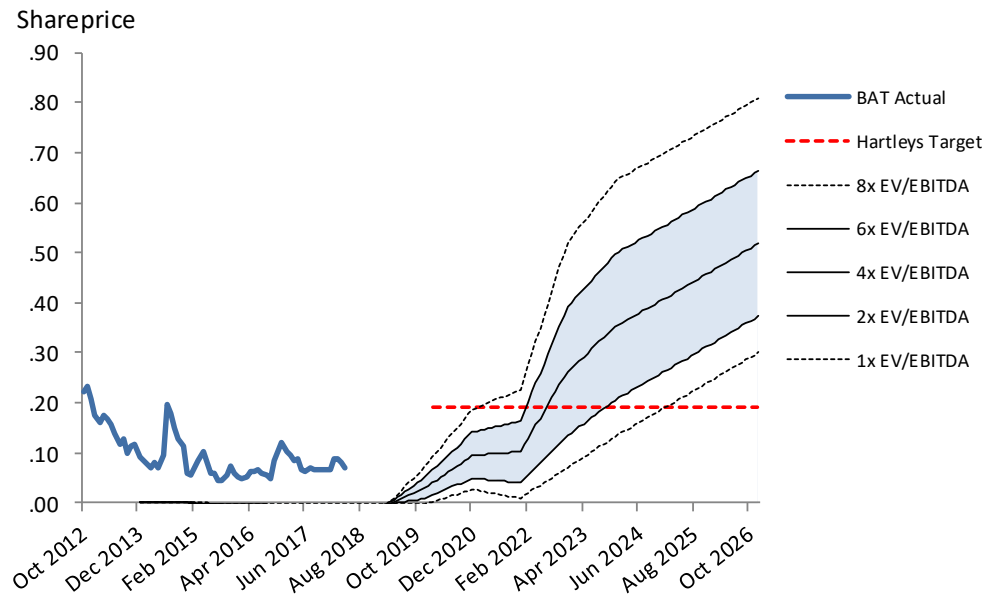
Conclusion

Given the lack of transparency in graphite pricing, we view BAT as a moderate risk. No long-term offtake agreement and no mining license is the biggest threat to our valuation, in our view.

Source: Hartleys

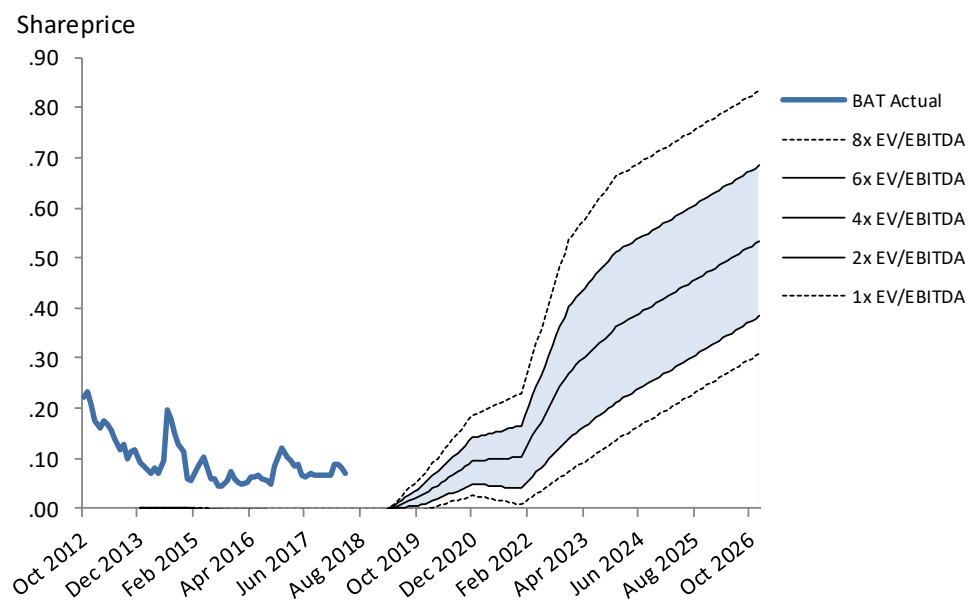
EV/EBITDA BANDS

Fig. 5: *Using Hartleys base case commodity forecasts*



Source: Hartleys Estimates, IRESS

Fig. 6: *Using spot commodity prices*



Source: Hartleys Estimates, IRESS

HARTLEYS CORPORATE DIRECTORY

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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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