

Wednesday, September 19, 2012

### Navarre Minerals Limited

#### Tandarra is a potentially major gold discovery

Gold and base metals exploration company Navarre Minerals Limited (Navarre) has made a potentially major gold discovery at its Tandarra prospect within its Bendigo North group of projects where the next phase of exploration is about to begin.

In an era when major new gold discoveries are quite rare, especially in the major mineral provinces, it is most likely that big gold discoveries can still be made in historic mineral provinces that have not been subjected to thorough modern exploration by the world's large resource companies. That is why Victoria is such a prospective exploration region, especially for gold deposits like the world scale Bendigo field that are likely to be hidden under relatively shallow younger cover of the Murray Basin sediments. While this large and potentially prospective area under cover has only been sparsely prospected to date, the well-established large scale mineral sands mining operations of Iluka Resources Ltd in the northwest of the State demonstrate that open pit mining in and through the Murray Basin sediments is straight forward and economically attractive.

We believe Navarre is an attractive gold and base metals investment and it is progressing very well with its development of Tandarra and its other exploration assets with the following features:

- Tandarra is shaping up as a major gold discovery.** The company has already defined multiple shallow quartz-rich bodies (probably quartz reefs) that cover a large area which is strongly analogous to the nearby Bendigo Goldfield so there is high potential for a deposit containing 5 to 6 million ounces of gold within 100m of the surface. Tandarra is shaping up as one of the best gold discoveries in Australia since Tropicana in Western Australia. Low cost mining by open pit is most likely at Tandarra and there is also considerable scope for secondary (detrital) gold deposits at the base of the overlying Murray Basin sediments.
- Full ownership of Tandarra.** The recent agreement with Crocodile Gold Corporation to convert its earn-in right to a 2% net smelter royalty gives Navarre full ownership and certainty at Tandarra and aids potential development.
- Upcoming bulk sampling at Tandarra ahead of maiden resource.** The company is targeting the release of a maiden resource estimate for Tandarra during 2013 after it completes another phase of drilling by various methods, the RC component of which has already produced a large amount of sample residue that Navarre is planning to process as a bulk sample for added information about likely gold grades.
- Significant regional exploration potential.** The company holds large strategic areas in the prospective Central Victorian goldfields district that have only been lightly explored in recent years. These are regarded as prospective for primary gold and base metals deposits and are located close to under-utilised processing plants in Central Victoria.

We regard the Tandarra prospect as very attractive and see potential for Navarre to establish and broaden a significant resource base by further exploration at Tandarra and the company's other main prospects, which we understand will resume shortly and continue into 2013. We see considerable scope for exploration success at each of Navarre's main projects through appropriately targeted exploration programs, which are expected to be adequately funded by its current and planned funding arrangements, such as its recently announced Share Purchase Plan (SPP).

Accordingly, we rate Navarre as a **Speculative Buy** with High Risk.

NML \$0.155

Recommendation  
**Speculative Buy**

Risk Assessment  
**High**

#### Sector - Gold

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#### Navarre Minerals Limited

ASX Code	NML
52 week range	\$0.14 - \$0.55
Market Cap (\$M)	9
Shares Outstanding (M)	55.8
Net Cash June 2012 (\$M)	1.5

#### Share price performance



Source: Iress

## Background

Formed in 2007, the company was listed in March 2011 to explore a group of Central Victorian mineral tenements that included the Tandarra prospect, where preliminary exploration drilling by previous explorers had identified significant gold mineralisation in quartz at relatively shallow depths under Murray Basin sediments. Navarre has increased its exploration interests to the north of Bendigo over the past year with the acquisition of additional exploration tenements near Tandarra and by farming into other strategic tenements at Raydarra and Sebastian.

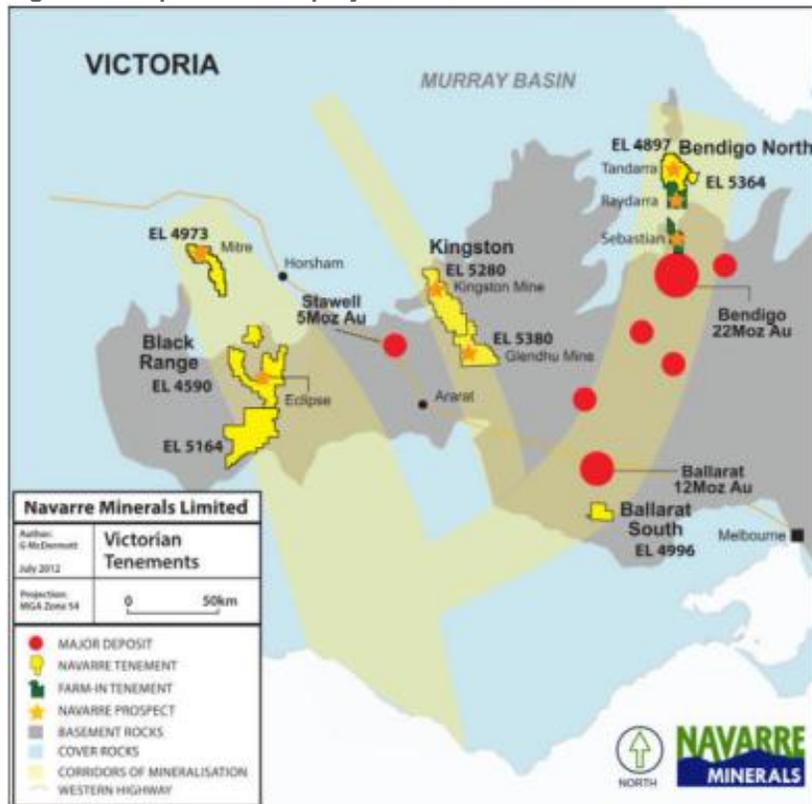
The company has an area around the old Kingston gold mine, 30km east of the 5Moz Stawell gold mining operations. Drilling by Navarre and others at Kingston has intersected shallow high grade gold mineralisation in quartz stockwork veins.

Navarre holds several exploration tenements in Western Victoria, which comprise the Black Range Project. These areas contain extensive amounts of Cambrian-aged volcanics with several occurrences of base metals and gold mineralisation of which the Eclipse prospect is the most advanced and has returned encouraging drilling results. These volcanic rocks are regarded as geologically equivalent to the highly productive Mt Read Volcanics in the West Coast region of Tasmania.

The company's strategy is to develop low cost production from mining high grade near surface mineral deposits using cost-efficient open pits.

Navarre was formed to explore for mineral deposits in Victoria, especially those under cover in an area that has so far only had very cursory exploration.

Figure 1. Map of Navarre projects



Source: Navarre Minerals

## Potential Gold Under Cover in Central Victoria

Using a statistical approach, the Victorian government's specialist geological agency, GeoScience Victoria (GSV), has estimated that the undiscovered gold endowment under cover in the North Bendigo Zone (an area of about 7,600km<sup>2</sup>) of Central Victoria is about 32 million ounces.

The GSV sees potential for about 32 million ounces of undiscovered gold endowment under cover in Central Victoria.

Most of this gold is expected to be in ore fields containing at least 1 million ounces of gold. The GSV estimate of gold endowment under cover in this area is in Lisitsin et al (2007)<sup>1</sup>. It was based on grade and tonnage modelling using spatial gold endowment data from the historically mined basement portion of the Ballarat - Bendigo Zone.

Analysis of historical gold discoveries in Victoria by MinEx Consulting indicates that despite significantly higher gold prices and renewed exploration activity for gold in Victoria over the past decade, there have only been a few brownfields gold deposits discovered. This mirrors the discovery record generally around the world, indicating that the relatively easy and obvious deposits have been found already.

The GSV expects that much of the undiscovered Victorian gold under cover is expected to be in ore fields that contain at least 1 million ounces

## Geophysics Provides Major Exploration Advantage

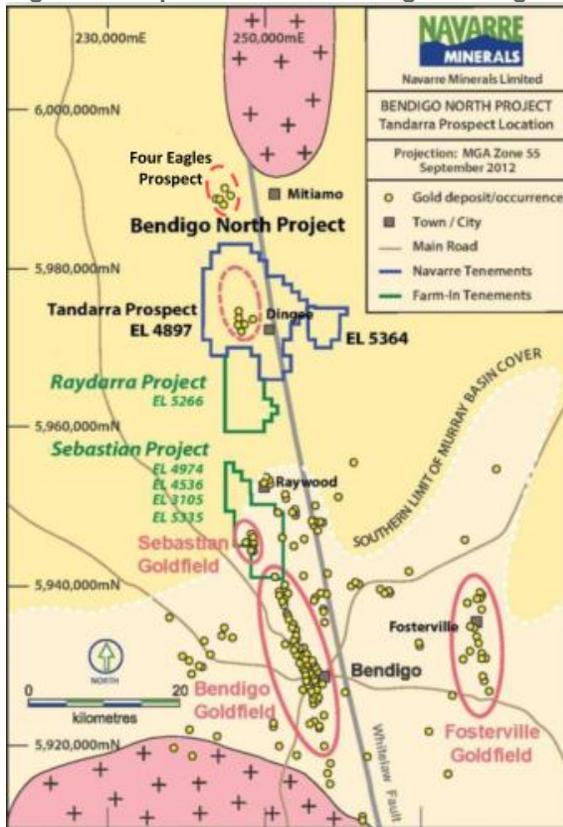
The company's innovative use of a specialist geophysical technique of Controlled Source Audio-Frequency Magneto Tellurics (CSAMT) appears to be unlocking the basement geology concealed below the overlying cover at Tandarra. CSAMT has been successfully applied to identify quartz reef bodies by mapping their apparent resistivity from other rocks within the sub-surface at Tandarra. Due to the recent successful detection of quartz reefs under Murray Basin cover, Navarre plans to apply this technology to other areas within its Bendigo North group of projects.

Navarre has successfully used modern geophysics to aid its exploration.

## Projects

Navarre's main exploration projects are Bendigo North (consisting of Tandarra, Raydarra and Sebastian); Kingston; and Black Range (Figure 1).

Figure 2. Map of Navarre's Bendigo North group of projects.



Source: Navarre Minerals

Note 1. Lisitsin, V., Olshina, A., Moore, D.H. and Willman, C.E., 2007. An assessment of undiscovered mesozonal orogenic gold endowment under cover in the northern part of the Bendigo Zone; *GeoScience Victoria Gold Undercover Report 2*. Department of Primary Industries.

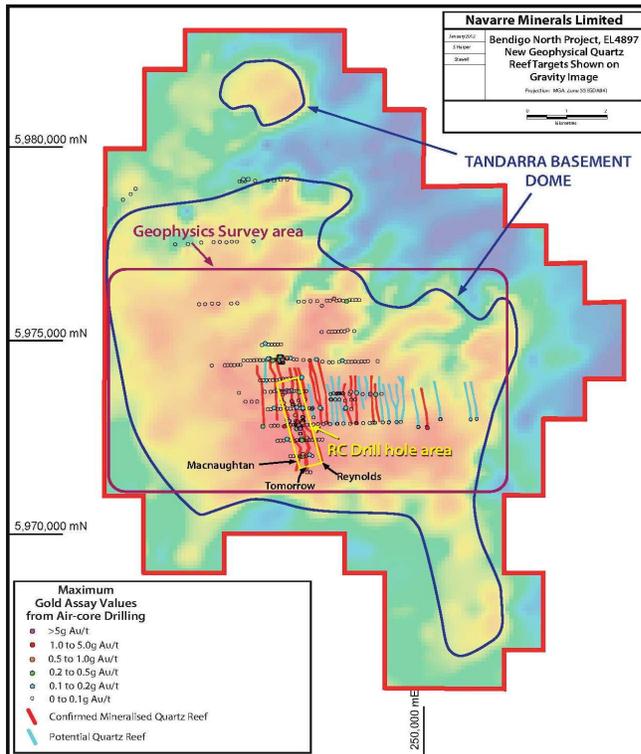
## Bendigo North Group of Projects

### Tandarra

Following a recent deal with its major shareholder, TSX-listed Crocodile Gold Corporation (Crocodile), Navarre has moved to 100% ownership of the Tandarra prospect, which is located about 40 km to the north of Bendigo in Central Victoria, (Figures 1, 2 and 3). Relatively shallow gold mineralisation in quartz-rich structures (probably quartz reefs) has been discovered in drilling at Tandarra (Figure 4). The gold mineralisation occurs in what appears to be a buried hill or dome structure with potential dimensions of about 35km<sup>2</sup>. Navarre has defined up to 29 quartz-rich structures (probable quartz reefs) by a combination of geophysics and drilling.

Navarre has moved to 100% ownership of the exciting Tandarra gold discovery north of Bendigo in Central Victoria

Figure 3. Map of Navarre's Tandarra Prospect.



Source: Navarre Minerals

Navarre's recent deal with Crocodile is seen as a very significant one as it gives Navarre full ownership and certainty at Tandarra and will aid its potential development, especially in the event that it proves to be a very large and profitable gold deposit. Navarre has signed a heads of agreement with Crocodile to convert Crocodile's right to earn a majority interest in Tandarra into a 2% net smelter royalty (NSR) interest on Tandarra's future gold production. Navarre also has the right to buy back 1% of the NSR for \$2.0M within four years, reducing the NSR to 1%.

Navarre is targeting a maiden resource estimate for Tandarra during 2013 which we assume will mostly be related to the three main quartz reefs identified so far - the Tomorrow, Macnaughtan and Reynolds lines. Based on each of these reefs having a strike length of about 4km and gold endowment of up to 100,000 ozs/km, we expect this maiden resource could be of the order of 300,000 to 500,000 ozs of contained gold but that ongoing exploration could increase the Tandarra resource to several million ounces if a high proportion of the 29 potential quartz-rich structures identified to date are economically mineralised or found to be more extensive than currently indicated. Given the strongly analogous geology and gold mineralisation to the Bendigo goldfield, where there was 5.6 Mozs in the top 100m, we see good potential for the Tandarra district to ultimately contain a similar gold endowment.

Navarre has identified 29 potential quartz-rich structures at Tandarra and is planning to resume drilling there soon as it moves to define a maiden resource possibly in the range of 300,000 to 500,000 ounces in 2013

Drilling will resume at Tandarra in October 2012 to evaluate the high grade gold intercepts and extend the broad zone defined by the three main reefs. Navarre may choose to define a larger initial resource by spending more time drilling in 2012 and early 2013 with focus on regional extensions to the existing identified reefs.

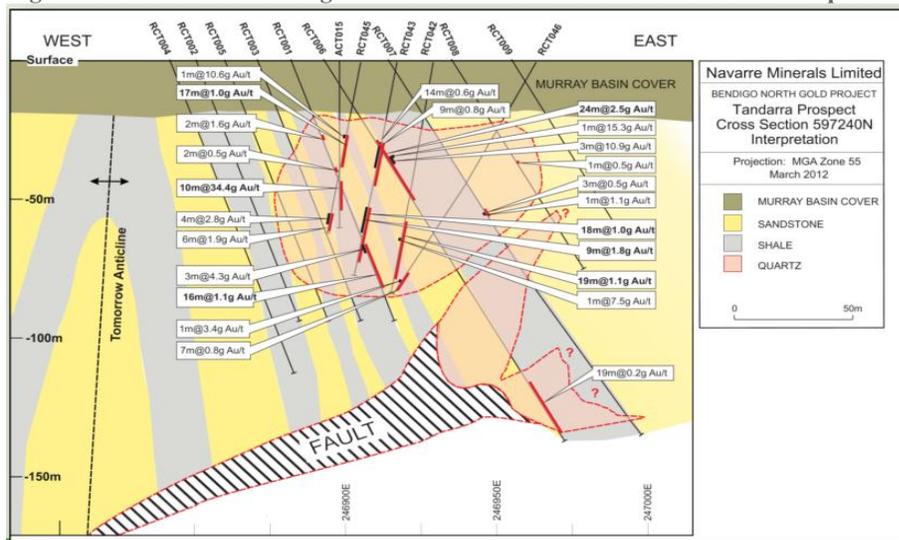
Our analysis indicates that Tandarra could rapidly become a relatively low cost gold producer based on simple and relatively shallow open pit operations of at least 1 million tonnes per annum achieving gold head grades of around 2g/t.

Navarre plans to conduct an innovative bulk sampling program of many of the residual RC drilling chips. This is designed to test for coarse (nuggetty) gold which may not have been adequately sampled in the routine 2kg assays of each 1 metre drill interval. Navarre is hoping that the bulk sampling may upgrade the overall gold content of the mineralised zones. The company has recently purchased a special purpose bulk treatment plant that is currently being dismantled and re-established at Stawell. Under the proposed arrangement for the treatment plant, it will be located on the mining lease of the Stawell Gold Mine owned by Crocodile, who will provide technical personnel to oversee its operation on a cost recovery basis.

We expect Tandarra could rapidly become a relatively low cost and shallow open pit gold mining operation

Navarre is planning to carry out bulk sampling on drilling residues to give it more grade data

Figure 4. Cross section through Tomorrow Line at Navarre’s Tandarra Prospect.



Source: Navarre Minerals

### Raydarra

Located immediately to the south of the Tandarra Prospect and about 30km to the north of Bendigo in Central Victoria, (Figures 1 and 2), Navarre is earning up to a 75% interest in the Raydarra tenements from Castlemaine Goldfields. This can be achieved by the expenditure of \$300,000 over the first two years to earn a 51% interest and then Navarre may elect to earn a further 24% interest by additional expenditure of \$600,000 over the subsequent three years with a minimum expenditure of \$100,000 in the first year. If either party reduces to less than a 10% interest, its interest reverts to a 1% net smelter interest.

Initial geophysical lines and reconnaissance air-core drilling has recently begun here and we understand follow up work is planned in the upcoming field season.

### Sebastian

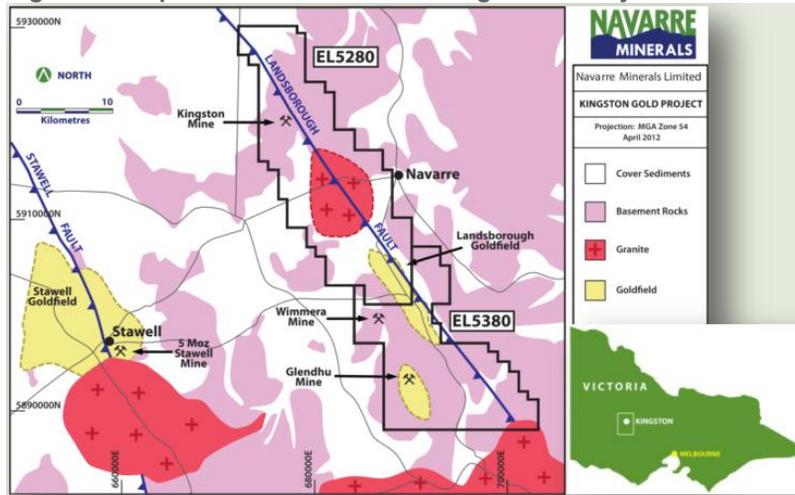
Located about 20km to the north of Bendigo near the town of Raywood in Central Victoria, (Figures 1 and 2), the Sebastian Goldfield contains the former Frederick The Great mine which produced about 186,000 ozs of gold at 10.4g/t from various phases of activity by several companies and syndicates between its discovery in 1864 and its closure in the early 1900s. The northern third of the Sebastian Project is covered by shallow Murray Basin sediments and has not been prospected.

Navarre is earning up to a 75% interest in the Sebastian tenements from Castlemaine Goldfields. This can be achieved by the expenditure of \$100,000 over the first two years to earn a 51% interest and then Navarre may elect to earn a further 24% interest by additional expenditure of \$300,000 over the subsequent three years with a minimum expenditure of \$50,000 in the first six months. If any party reduces to less than a 10% interest, its interest reverts to a 1% NSR interest.

### Landsborough Fault Gold Project

The Landsborough Fault is widely recognised as a major regional deep crustal fault structure, which is interpreted to have acted as a conduit or pathway for migration of gold and/or base metals mineralising fluids. Mineral deposits in Western Victoria are generally associated with fault structures in a similar way to the role of the Whitelaw Fault in the Bendigo/Central Victorian region and the Boulder-Lefroy Fault in the Kalgoorlie region of the Eastern Goldfields of Western Australia. Navarre has two projects straddling the Landsborough Fault . Kingston and Glendhu (Figure 5).

Figure 5. Map of Navarre's Landsborough Fault Project



Source: Navarre Minerals

### Kingston Gold Project

The Kingston Gold Project is located about 30 km northeast of the Stawell Gold Mine operations, owned by Crocodile (Figures 1 and 5). It contains several historic shallow gold workings sporadically mined over a strike length of about 1,000m to a maximum depth of about 75m. The old Kingston Gold Mine was the dominant mine in the district and it produced gold, silver and minor lead until 1903 when it closed due to lack of capital.

The Kingston reef is regarded as a stockwork gold deposit that has only had cursory exploration from a number of groups over the past few decades.

Previous drilling by others has intersected significant and relatively shallow high grade gold mineralisation including 9.0m averaging 40.5g/t gold and 8.0m averaging 23.0g/t gold. In the recent 1,200m diamond drilling program by Navarre, the company intersected 16.9m averaging 5.5g/t gold from 67.7m down-hole, which included 3.1m averaging 29.5 g/t gold in DDK001.

Navarre recently completed a 4,200 line km airborne magnetic survey across the Kingston mine and the Landsborough Fault ahead of the next phase of exploration.

### Glendhu

Navarre recently obtained Exploration Licence (EL) 5380 of 185 km<sup>2</sup> covering the southern portion of the Landsborough Fault. EL 5380 abuts the southern end of the Kingston Gold Project and contains various historic mines including the Glendhu and Wimmera Gold Mines (Figure 5).

The Landsborough Fault Project contains the Kingston Gold Project, where shallow high grade gold mineralisation has been intersected in drilling, and the adjoining Glendhu area.

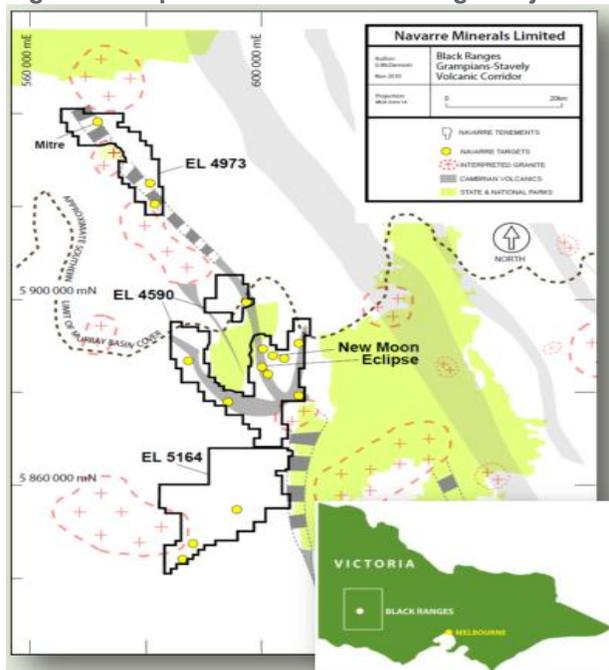
### Ballarat South Gold Project

Located near the Ballarat Gold Mine currently being operated by Castlemaine Goldfields, Navarre's Ballarat South area contains several shallow historic gold mines. Exploration by the company on this project is still at a very early stage.

### Black Range Base Metals and Gold Project

Located to the west of the Grampians Ranges, the Black Range Project consists of several ELs (Figure 6) covering Cambrian volcanics that have been under-explored due to poor outcrop and cover. These volcanic rocks are believed to be geologically equivalent to the highly productive Mt Read Volcanics in the West Coast region of Tasmania. Targets include base and precious metals in volcanic-hosted massive sulphide deposits and porphyry-hosted gold-copper deposits. The company is currently developing a new exploration plan for this project.

Figure 6. Map of Navarre's Black Range Project.



Source: Navarre Minerals

## Board and Management

The company has a well-balanced and very experienced board of directors and management team. The Non-Executive Chairman, Kevin Wilson, is a geologist and broadly experienced resources specialist who has held a wide range of operational and management roles involving mineral exploration, mining and finance for gold and many other commodities. The Managing Director is Geoff McDermott, who is a geologist with over 25 years of experience including senior positions in gold mining operations and exploration in Australia and Internationally. John Dorward is a Non-Executive Director who has held senior financial roles with a number of ASX-listed companies. Colin Naylor is a Non-Executive Director who has held a number of senior roles with major ASX-listed companies.

Navarre recently appointed Wess Edgar as Exploration Manager. Wess is a very experienced geologist with over 20 years of experience in the resources industry, predominantly in gold mining but also in base metals. He was previously Exploration Manager for Castlemaine Goldfields, where he had a range of responsibilities including regional exploration management and technical project assessments and business development. Prior to that, he held geological roles with Placer Dome Asia Pacific, Goldfields and Renison Goldfields Consolidated.

The Black Range Project is prospective for base and precious metals in Cambrian volcanics believed to be geologically equivalent to the Mt Read Volcanics

Navarre has a very experienced board of directors and management team with exploration and operational experience

## SPP to Boost Funding for Exploration

Navarre recently announced a share purchase plan (SPP) offer to eligible shareholders to raise additional funds to advance the company's Bendigo North, Kingston and Black Range projects. Most of the funds raised are expected to be used for a drilling program to delineate the gold mineralisation within a 4km long corridor of near surface mineralisation at Tomorrow, Macnaughtan and Reynolds lines of reef at Tandarra, where drilling is planned to resume in October 2012.

The company's 2012 SPP allows eligible shareholders to subscribe for up to \$15,000 worth of additional shares in Navarre at an attractive 13.2% discount to the volume weighted average price of Navarre shares over the five trading days immediately prior to the announcement of the SPP on 10 September 2012 without participants paying any brokerage or other costs normally related to on-market share purchases. Key features of the SPP are:

- Eligible shareholders may acquire new shares in Navarre in parcels of \$1,000, \$2,000, \$5,000, \$10,000 or \$15,000 at 15 cents per share
- The company may raise up to about \$2.5M from the issue of up to about 16.7M shares
- Shareholders who participate in the SPP will be eligible for a bonus issue of options that Navarre intends to undertake on the basis of one (1) free option for every two (2) new shares subscribed for under the SPP. The bonus options will be exercisable at 20 cents until expiry on 3 December 2013 and will, on exercise, give the holder one fully paid ordinary share. The company does not intend to apply for the listing of the bonus options on the ASX. Navarre will release a separate disclosure document for the bonus options detailing full terms and conditions of them, which is anticipated to occur within the next three months. Only shareholders who participate in the SPP will be eligible to receive bonus options. All new shares issued under the SPP will be allocated and issued prior to the record date for the bonus issue.

Indicative key dates of the SPP are as follows:

- Record date was 5:00pm Melbourne time on Friday 7 September 2012
- Announcement date was Monday 10 September 2012
- The offer opened on Tuesday 11 September 2012
- The Closing Date is 5:00pm (Melbourne Time) on Friday 5 October 2012
- The Issue Date is Friday 12 October 2012
- Shares issued under the SPP are expected to commence quotation on the ASX on Monday 15 October 2012.

## Recommendation

We believe Navarre is an attractive gold and base metals investment and it is progressing very well with development of Tandarra and its other exploration assets, which have the following features:

- **Tandarra is shaping up as a major gold discovery.** The company has already defined multiple shallow quartz-rich bodies (probably quartz reefs) that cover a large area which is strongly analogous to the nearby Bendigo Goldfield so there is high potential for a deposit containing 5 to 6 million ounces of gold within 100m of the surface. Tandarra is shaping up as one of the best gold discoveries in Australia since Tropicana in Western Australia. Low cost mining by open pit is most likely at Tandarra as there is also considerable scope for secondary (detrital) gold deposits at the base of the overlying Murray Basin sediments.

Navarre is seeking additional funding for its exciting exploration programs through an SPP on attractive terms

We regard Navarre as an attractive gold and base metals investment with its Tandarra Project shaping up as one of the best gold discoveries in Australia since Tropicana

- **Full ownership of Tandarra.** The recent agreement with Crocodile Gold to convert its earn-in right to a 2% net smelter royalty gives Navarre full ownership and certainty at Tandarra and aids potential development.
- **Upcoming bulk sampling at Tandarra ahead of maiden resource.** The company is targeting the release of a maiden resource estimate for Tandarra during 2013 after it completes another phase of drilling by various methods, the RC component of which has already produced a large amount of sample residue that Navarre is planning to process as a bulk sample for added information about likely gold grades.
- **Significant regional exploration potential.** The company holds large strategic areas in the prospective Central Victorian goldfields district that have only been lightly explored in recent years. These are regarded as prospective for primary gold and base metals deposits and are located close to under-utilised processing plants in Central Victoria.

We regard the Tandarra prospect as very attractive and see potential for Navarre to establish and broaden a significant resource base by further exploration at Tandarra and the company's other main prospects, which we understand will resume shortly and continue into 2013. We see considerable scope for exploration success at each of Navarre's main projects through appropriately targeted exploration programs, which are expected to be adequately funded by its current and planned funding arrangements, such as its recently announced SPP.

Accordingly, we rate Navarre as a Speculative Buy with High Risk.

**We rate Navarre as a  
Speculative Buy with  
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## Risks and Drivers

We identify the following as the main risks:

- Commodity prices and foreign exchange rate outcomes that are different to our forecasts
- Changes to government policy
- Lack of exploration success and/or geological complexities
- Adverse weather and operational issues
- Adverse environmental and other regulatory issues
- Cost overruns or operational delays
- Lack of funding to carry out adequate exploration and development
- Adverse acquisitions of other assets that divert management effort and yield inadequate returns

We identify the following as the main drivers:

- Exploration and evaluation drilling at Tandarra and other projects
- Further positive results from the innovative use of geophysics to extend and further define the nature of the highly prospective quart-rich bodies known to be associated with gold mineralisation under cover at Tandarra, Raydarra and Sebastian
- Maiden resource for Tandarra due in 2013
- Bulk sampling of Tandarra RC drilling residues ahead of feasibility studies
- Extension of successful geophysical surveys to all projects

## IMPORTANT INFORMATION

This report was prepared by an Analyst at Melbourne Capital Limited (MCL), ABN 30 055 638 438, AFS Licence No. 238978. Its release has been authorised by MCL.

### Analyst Certification

Peter Arden, Research Analyst and author of this report, certifies that all views expressed in this report accurately reflect his personal and professional views about Navarre Minerals Limited (Navarre) and its securities.

### Analyst's Disclosure

As at the date of this report, the Analyst and/or his associates holds an interest in the securities mentioned or recommended, which may change during the life of this report, but MCL considers these holdings/interests not to be sufficiently material to compromise the Analyst's views or the recommendation. The Analyst and/or his associates may transact in a manner inconsistent with the recommendation.

### Guide to Recommendations

SPECULATIVE BUY	The stock's total return (notional dividend yield excluding franking credits plus capital appreciation) is expected to exceed 20% over 12 months. The investment may have a strong capital appreciation but it also has a high degree of risk and there is a significant risk of capital loss.
BUY	The stock is undervalued. Total return is expected to exceed 15% over 12 months.
ACCUMULATE	The stock's total return is expected to be between 5% and 15%.
HOLD	The stock is fairly priced, and its total return is expected to be between 0% and 5%.
LIGHTEN	The stock's total return is expected to be less than 0% and possibly down to a loss of 15%.
SELL	The stock's total return is expected to be a loss of 15% or more.
UNDER REVIEW	The recommendation is under review and could change in the near term, usually in response to further information or analysis of an unexpected recent event that may have affected the investment case or valuation.

### Risk Assessment

Classified as High, Medium or Low, being the relative assessment of the likelihood that the forecast performance for the stock would be achieved, based on an appraisal of disclosed financial information, trading volatility, nature of its operations and other relevant quantitative and qualitative criteria.

### Warnings

If you qualify as a Retail Client and haven't been provided with our Financial Services Guide (FSG), it is available on request from the Analyst.

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You should assume that MCL is seeking or may seek corporate finance/advisory business from Navarre.

### Specific Disclosure

Navarre provided assistance with on-site visits.

MCL has been/will be paid a fee by Navarre, on usual commercial terms, for the preparation and publication of this report and a proportion of that fee has been/will be paid to the Analyst.

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