

NEXUS ENERGY LTD

Conditional Sale Provides Breathing Space

Nexus Energy Limited ("Nexus", "NXS", "Company") has reported the conditional sale of 50% of its Longtom gas/condensate asset (and an associated exploration permit) to AED Oil Ltd ("AED"). Longtom is located in the Gippsland Basin, offshore Victoria.

The deal will provide Nexus with \$35m up front plus a further \$120m on the 21st September subject to certain conditions, such as AED obtaining finance. The Company now has breathing room to pursue a partial sale of its 85% owned cornerstone Crux liquids project at better than firesale prices. Nexus also clearly stated in a recent teleconference that this deal means that it is no longer considering issuing equity.

Opportunity for Exposure to Quality Assets

The announcement of the deal marked the recommencement of trading in the stock after being suspended since the 6th March 2009. As expected, Nexus' share price decreased, from 38cps as at last listing to a low of 29cps, as disgruntled shareholders exited the register.

Nexus retains an 85% stake in the Crux liquids project, located in the Browse Basin, which has 75 million barrels of gross condensate reserves. There are also several nearby exploration prospects that are considered low risk and could increase the reserves to greater than 100 million barrels. The project is a liquids stripping operation that is not without technical risk; however, we retain a high conviction belief in the quality of the asset and its commercial viability.

Cash, Debt and Liabilities

As at 31st March 2009, Nexus retained \$61m in cash and had \$100m available in its Longtom debt facility. The Longtom transaction should yield \$65m in available cash after a portion of the debt facility is paid down. This would result in debt of \$80m secured against Longtom plus a subordinated note for \$130m due in Jan 2013. The Company has future committed expenditure of ~\$35m for long lead items for Crux and a \$15m payment due to Viking Shipping International. Assuming no additional exploration expenditure and taking into account overheads, the Company should retain ~\$60m cash by the end of September. Nexus also has a number of exploration permits, which could be farmed down or sold, providing further funds.

Crux Development Options

We have assumed that first liquids from Crux are delayed by one year until Q3 2012. However, based on flow rate parameters for the project we believe that the reserve (plus additional resources from exploration success) can still be extracted prior to the December 2020 cut-off date when the permit is transferred to Shell. Nexus is looking sell part of the project later this year in order to fund its share of the US\$650m capex requirement.

The terms of the contract also provide for an option where Nexus can cede the permit to Shell earlier than 2020 but retains rights to any liquids produced. Shell would first have to agree to this and then Nexus would contribute funds to the project for the liquids portion of the development.

We retain our Speculative Buy recommendation; however, will upgrade to a Buy as milestones are achieved. Near term catalysts include; first gas from Longtom in July 2009, completion of the Longtom sale to AED and partial sale of Crux.

2 Jun 2009

Share Price: \$0.32
6mth Price Target: \$0.61

Brief Business Description:

Oil and gas explorer / producer with assets located offshore Australia.

Hartleys Brief Investment Conclusion

Near term asset or corporate transaction likely. Needs exploration success or market recovery for significant share price appreciation.

Chairman & CEO:

Michael Fowler (Chairman)
Ian Tchacos (Managing Director)

Top Shareholders:

Viking Shipping Limited (10.6%)
Anzon Australia Limited (8.7%)
ANZ Nominees limited (6.2%)

Company Address:

Level 8, 28 Freshwater Place
Southbank VIC 3006

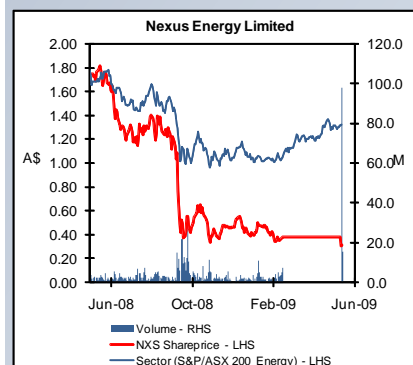
Valuation: \$2.03
Issued Capital: 645.4m
- fully diluted 645.4m
Market Cap: \$203.3m
- fully diluted \$203.3m
Debt (est. 31 Jun '09)*: -\$215.0m
Cash (est. 31 Jun '09): \$58.4m

*includes future proceeds from Longtom transaction

| | FY08a | FY09e | FY10e |
|----------------------|-----------|-----------|----------|
| Prodn (mmboe) | 0.000 | 0.000 | 1.717 |
| Op Cash Flw | -\$12.4m | -\$20.8m | \$12.6m |
| Free Cash Flw | -\$235.6m | -\$106.5m | \$290.1m |
| NPAT (A\$m) | -\$21.7m | -\$57.9m | \$6.1m |
| EPS (\$, bas) | -3.4x | -9.0x | 0.9x |
| P/E (basic) | -9.3x | -3.5x | 33.6x |
| EV / EBITDA | -14.8x | -9.0x | 10.7x |
| DPS (\$) | - | - | - |
| Franking | 100% | 100% | 100% |
| Dividend Yield | 0.0% | 0.0% | 0.0% |
| N.D. / equity | 74% | 54% | 24% |
| Chg in Cash | 182.7 | -164.4 | 302.5 |
| - per share | | | |
| Net Cash End | \$223.8m | \$58.4m | \$359.7m |
| 2P Reserves (mmboe)* | | 96 | |
| EV / 2P Reserve | | \$3.7 | |

Source: Hartleys Research

* assumes partial sale of Crux



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SUMMARY MODEL

| Nexus Energy Limited NXS | | | | | | Share Price \$0.32 | June 2009 SPECULATIVE BUY | | | | |
|--|------|---------|---------|---------|---------|------------------------|--|--|--|--|--|
| Key Market Information | | | | | | | Directors | | | | |
| Share Price | | | | | | \$0.32 | Company Information | | | | |
| Market Capitalisation | | | | | | \$203m | Mr Michael P Fowler (Chairman) Level 8, 28 Freshwater Place | | | | |
| 52 Week High-Low | | | | | | \$1.88-\$0.29 | Mr Ian Tchacos (Managing Director) Southbank VIC 3006 | | | | |
| Issued Capital | | | | | | 645.4m | Mr Alastair Haydock Tel: (03) 9660 2500 | | | | |
| Issued Capital (fully diluted inc. ITM options) | | | | | | 645.4m | Mr Michael Arnett Fax: (03) 9654 9303 | | | | |
| Options | | | | | | 0.00 | Mr Neil Ferguson Web: http://www.nexusenergy.com.au | | | | |
| Hedging | | | | | | | Top 10 Shareholders (est. 1/06/09) | | | | |
| Yearly Turnover/Volume | | | | | | \$643.1m/854.0m shares | m shares % | | | | |
| Liquidity Measure (Yearly Turnover/Issued Capital) | | | | | | 133% | Valuing | | | | |
| Discounted Cashflow @10% Real | | | | | | \$2.03 | Viking Shipping Limited 68.7 10.6 | | | | |
| 6 Month Price Target | | | | | | \$0.61 | Anzon Australia Limited 56.1 8.7 | | | | |
| Financial Performance | | | | | | | ANZ Nominees limited 39.8 6.2 | | | | |
| | Unit | FY2008A | FY2009E | FY2010E | FY2011E | FY2012F | HSBC Custody Nominees (Australia) Limited <GSI ECESA> 25.4 3.9 | | | | |
| Net Revenue | A\$m | 7.8 | - | 39.6 | 59.2 | 70.6 | National Nominees Limited 16.5 2.6 | | | | |
| Opex / Exploration | A\$m | (32.1) | (50.5) | (25.6) | (44.4) | (44.1) | HSBC Custody Nominees (Australia) Limited <GSCO ECA> 15.6 2.4 | | | | |
| Secondary Tax Expense | A\$m | - | 10.3 | 19.6 | 21.6 | 21.3 | Citicorp Nominees Pty Limited <CFS W/sale GBL Res Fund A/C> 15.6 2.4 | | | | |
| Total Costs/Writeoffs | A\$m | (32.1) | (40.1) | (6.0) | (22.8) | (22.8) | Citicorp Nominees Pty Limited <CFS W/sale GBL Res Fund A/C> 15.4 2.4 | | | | |
| EBITDA | A\$m | (24.3) | (40.1) | 33.6 | 36.4 | 47.8 | Pan Australian Nominees Pty Limited 10.5 1.6 | | | | |
| Depreciation/Amort | A\$m | (0.5) | - | (10.2) | (13.8) | (14.2) | HSBC Custody Nominees (Australia) Limited 9.9 1.5 | | | | |
| EBIT | A\$m | (24.8) | (40.1) | 23.4 | 22.6 | 33.6 | 2P Reserves as at 22/4/2008 | | | | |
| Net Interest | A\$m | 3.1 | (17.8) | (14.7) | (6.7) | (1.1) | *Attributable | | | | |
| Pre-Tax Profit | A\$m | (21.7) | (57.9) | 8.7 | 15.9 | 32.5 | Longtom 2.00 175.00 32.10 | | | | |
| Tax Expense | A\$m | - | - | (2.7) | (8.0) | (10.4) | Crux 63.90 63.90 | | | | |
| NPAT | A\$m | (21.7) | (57.9) | 6.1 | 7.9 | 22.1 | Total (mmboe) 65.90 175.00 96.00 | | | | |
| Abnormal Items | A\$m | 46.5 | 58.8 | 105.0 | - | - | Production Summary | | | | |
| Reported Profit | A\$m | 24.9 | 0.9 | 111.1 | 7.9 | 22.1 | Unit FY2008A FY2009E FY2010E FY2011E FY2012F | | | | |
| | | | | | | | *Attributable | | | | |
| | | | | | | | Liquids mmbbl - - 0.14 0.19 0.19 | | | | |
| | | | | | | | Gas PJ - - 9.45 12.80 12.60 | | | | |
| | | | | | | | Total mmboe - - 1.72 2.29 2.29 | | | | |
| | | | | | | | Price Assumptions | | | | |
| | | | | | | | Unit CY2008 CY2009 CY2010 CY2011 CY2012 | | | | |
| | | | | | | | Gas Price AUD\$/GJ 3.00 3.50 4.00 4.50 5.50 | | | | |
| | | | | | | | Liquids Price US\$/bbl 99.59 55.71 70.00 80.00 85.00 | | | | |
| | | | | | | | Exchange Rate A\$/US\$ 0.85 0.73 0.75 0.80 0.75 | | | | |
| | | | | | | | Hedging | | | | |
| | | | | | | | Unit FY2008A FY2009E FY2010E FY2011E FY2012F | | | | |
| | | | | | | | Total Forward Sales - Oil mmbbl | | | | |
| | | | | | | | Forward Oil Price A\$/bbl | | | | |
| | | | | | | | Sensitivity Analysis | | | | |
| | | | | | | | Valuation (\$/s) NPAT EPS (c) CFPS (c) | | | | |
| | | | | | | | Base Case 2.03 22.1 3.4 8.9 | | | | |
| | | | | | | | Oil Price +-10% 2.18 23.0 3.6 9.2 | | | | |
| | | | | | | | Oil Price -10% 1.88 21.1 3.3 8.7 | | | | |
| | | | | | | | Exchange Rate +-10% 1.90 21.2 3.3 8.7 | | | | |
| | | | | | | | Exchange Rate -10% 2.20 23.1 3.6 9.2 | | | | |
| | | | | | | | Spot (Oil US\$68, FX 0.80) 1.67 20.3 3.1 8.5 | | | | |
| | | | | | | | *N.B. NPAT, EPS, CFPS forecasts are for FY2012 | | | | |
| | | | | | | | Share Price Valuation (NAV) | | | | |
| | | | | | | | \$m \$/share | | | | |
| | | | | | | | Crux @ 10%* 716.1 1.11 | | | | |
| | | | | | | | Longtom @ 10% 271.6 0.42 | | | | |
| | | | | | | | Exploration 445.9 0.69 | | | | |
| | | | | | | | Cash 58.4 0.09 | | | | |
| | | | | | | | Debt (215.0) (0.33) | | | | |
| | | | | | | | Corp Admin (18.8) (0.03) | | | | |
| | | | | | | | Options 52.5 0.08 | | | | |
| | | | | | | | Total 1310.6 2.03 | | | | |
| | | | | | | | * assumes sale of 35% of asset | | | | |
| | | | | | | | 10% real discount rate used for DCF (-13.3% nominal) | | | | |
| Financial Position | | | | | | | Analyst: David Wall | | | | |
| | Unit | FY2008A | FY2009E | FY2010E | FY2011E | FY2012F | Phone: +61 8 9268 2826 | | | | |
| Cash | A\$m | 223.8 | 58.4 | 359.7 | 25.0 | 25.0 | Sources: IRESS, Company Information, Hartleys Research | | | | |
| Other Current Assets | A\$m | 23.8 | 33.8 | 28.5 | 29.1 | 30.4 | Last Updated: 02/06/2009 | | | | |
| Total Current Assets | A\$m | 247.6 | 92.2 | 388.2 | 54.1 | 55.4 | | | | | |
| Property, Plant & Equip. | A\$m | - | 340.5 | 422.3 | 539.0 | 554.3 | | | | | |
| Exploration & Dev. | A\$m | 401.1 | 261.1 | 266.1 | 276.1 | 286.1 | | | | | |
| Investments/other | A\$m | 98.6 | 98.6 | 98.6 | 98.6 | 98.6 | | | | | |
| Tot Non-Curr. Assets | A\$m | 499.8 | 700.3 | 787.6 | 913.8 | 939.6 | | | | | |
| Total Assets | A\$m | 747.4 | 792.5 | 1175.8 | 968.0 | 995.1 | | | | | |
| Short Term Borrowings | A\$m | 89.5 | - | - | - | - | | | | | |
| Other | A\$m | 45.9 | 45.9 | 45.9 | 45.9 | 45.9 | | | | | |
| Total Curr. Liabilities | A\$m | 135.4 | 45.9 | 45.9 | 45.9 | 45.9 | | | | | |
| Long Term Borrowings | A\$m | 195.2 | 255.2 | 215.2 | 11.7 | 32.9 | | | | | |
| Other | A\$m | 34.3 | 19.2 | 4.4 | (16.1) | (33.8) | | | | | |
| Total Non-Curr. Liabil. | A\$m | 229.5 | 274.5 | 219.6 | (4.4) | (0.9) | | | | | |
| Total Liabilities | A\$m | 364.9 | 320.3 | 265.5 | 41.5 | 45.0 | | | | | |
| Net Assets | A\$m | 382.5 | 472.2 | 910.3 | 926.5 | 950.1 | | | | | |
| Cashflow | | | | | | | | | | | |
| | Unit | FY2008A | FY2009E | FY2010E | FY2011E | FY2012F | | | | | |
| Operating Cashflow | A\$m | (12.4) | 12.0 | 31.2 | 54.6 | 65.3 | | | | | |
| Income Tax Paid | A\$m | - | - | (3.9) | (5.8) | (6.5) | | | | | |
| Interest & Other | A\$m | - | (32.8) | (14.7) | (6.7) | (1.1) | | | | | |
| Operating Activities | A\$m | (12.4) | (20.8) | 12.6 | 42.1 | 57.7 | | | | | |
| Property, Plant & Equip. | A\$m | (1.0) | (190.5) | (92.5) | (130.0) | (30.0) | | | | | |
| Exploration/Development | A\$m | (196.8) | (50.0) | (25.0) | (50.0) | (50.0) | | | | | |
| Investments | A\$m | (100.5) | 33.1 | - | - | - | | | | | |
| Proceeds From Sale | A\$m | 75.1 | 113.3 | 420.0 | - | - | | | | | |
| Investment Activities | A\$m | (223.2) | (94.1) | 302.5 | (180.0) | (80.0) | | | | | |
| Repay / Draw Debt | A\$m | 175.2 | (49.5) | (13.0) | (178.5) | 55.2 | | | | | |
| Equity | A\$m | 243.1 | - | 0.4 | - | - | | | | | |
| Financing Activities | A\$m | 418.3 | (49.5) | (12.6) | (178.5) | 55.2 | | | | | |
| Net Cashflow | A\$m | 182.7 | (164.4) | 302.5 | (316.4) | 32.9 | | | | | |
| Ratio Analysis | | | | | | | | | | | |
| | Unit | FY2008A | FY2009E | FY2010E | FY2011E | FY2012F | | | | | |
| Cashflow Per Share | A¢ | (1.9) | (3.2) | 2.0 | 6.5 | 8.9 | | | | | |
| Cashflow Multiple | X | (16.3) | (9.8) | 16.1 | 4.8 | 3.5 | | | | | |
| Earnings Per Share | A¢ | (3.4) | (9.0) | 0.9 | 1.2 | 3.4 | | | | | |
| Price to Earnings Ratio | X | (9.3) | (3.5) | 33.6 | 25.8 | 9.2 | | | | | |
| Dividends Per Share | A¢ | - | - | - | - | - | | | | | |
| Dividend Yield | % | - | - | - | - | - | | | | | |
| Interest Cover | X | 7.9 | 2.3 | 1.6 | 3.4 | 29.8 | | | | | |
| Return on Equity | % | 7% | 0% | 12% | 1% | 2% | | | | | |

HARTLEYS RESEARCH COVERAGE LIST

| Hartleys Research Coverage | | | | | Hartleys Research Recommendation | |
|------------------------------------|-------------|-------------|---------------|-----------|----------------------------------|-------------------------------|
| Name | Ticker | Last Price* | M. CAP (A\$m) | EV (A\$m) | | Industry |
| Oil & Gas | | | | | | |
| 1. Woodside Petroleum Ltd | WPL | 42.48 | 29,675 | 32,572 | Buy | Major |
| 2. Eastern Star Gas Ltd | ESG | 0.785 | 641 | 562 | Buy | Producer / Explorer |
| 3. Carnarvon Petroleum Ltd | CVN | 0.680 | 464 | 398 | Buy | Producer / Explorer |
| 4. Nexus Energy Ltd | NXS | 0.380 | 245 | 410 | Speculative Buy | Developer / Explorer |
| 5. Tap Oil Ltd | TAP | 1.02 | 159 | 105 | Buy | Producer / Explorer |
| 6. Cooper Energy Ltd | COE | 0.435 | 127 | 34 | Buy | Producer / Explorer |
| 7. Strike Oil Ltd | STX | 0.220 | 72 | 66 | Speculative Buy | Explorer / Producer |
| 8. Amadeus Energy Ltd | AMU | 0.330 | 66 | 143 | Buy | Producer / Explorer |
| 9. Red Fork Energy Ltd | RFE | 0.690 | 62 | 54 | Buy | Explorer / Producer |
| 10. First Australian Resources Ltd | FAR | 0.077 | 44 | 31 | Speculative Buy | Explorer / Producer |
| 11. Oilex Ltd | OEX | 0.155 | 27 | 12 | Speculative Buy | Explorer / Producer |
| 12. European Gas Ltd | EPG | 0.135 | 27 | 91 | Speculative Buy | Producer / Explorer |
| 13. Sun Resources NL | SUR | 0.073 | 25 | 19 | Speculative Buy | Explorer / Producer |
| 14. Adelphi Energy Ltd | ADI | 0.068 | 10 | 3 | Speculative Buy | Junior |
| | | | Sub-Total | 31,645 | 34,500 | |
| Resources | | | | | | |
| 1. Riversdale Mining Limited | RIV | 6.34 | 1,195 | 869 | Speculative Buy | Coal |
| 2. Western Areas NL | WSA | 4.68 | 787 | 921 | Buy | Nickel |
| 3. Andean Resource Ltd | AND | 1.93 | 782 | 753 | Speculative Buy | Gold Developer |
| 4. Dominion Mining Limited | DOM | 4.73 | 487 | 535 | Speculative Buy | Gold |
| 5. Atlas Iron Limited | AGO | 1.51 | 457 | 407 | Buy | Iron Ore |
| 6. Medusa Mining Limited | MML | 1.95 | 325 | 297 | Buy | Gold |
| 7. Gold One International Limited | GDO | 0.290 | 199 | 119 | Buy | Gold |
| 8. Jabiru Metals Limited | JML | 0.275 | 137 | 130 | Buy | Zinc-Copper |
| 9. Intrepid Mines Limited | IAU | 0.310 | 133 | 111 | Speculative Buy | Gold |
| 10. Magma Metals Limited | MMB | 0.390 | 63 | 43 | Speculative Buy | PGM-Cu-Ni |
| 11. Ausquest Limited | AQD | 0.150 | 34 | 4 | Speculative Buy | Junior Explorer |
| 12. Emmerson Resources Limited | ERM | 0.160 | 33 | 21 | Speculative Buy | Junior Explorer |
| 13. Shaw River Resources Limited | SRR | 0.165 | 22 | 19 | Speculative Buy | Junior Explorer |
| 14. Southern Gold Limited | SAU | 0.125 | 16 | 14 | Speculative Buy | Junior Explorer |
| 15. Hazelwood Resources Ltd | HAZ | 0.140 | 14 | 14 | Speculative Buy | Junior Explorer |
| | | | Sub-Total | 4,683 | 4,257 | |
| Industrials | | | | | | |
| 1. West Australia News Hdgs Ltd | WAN | 4.16 | 856 | 1,174 | Buy | Media |
| 2. Monadelphous Group Limited | MND | 9.93 | 831 | 701 | Neutral | Mining Services |
| 3. Austal Limited | ASB | 2.57 | 483 | 389 | Speculative Buy | Capital Goods |
| 4. Clough Limited | CLO | 0.645 | 431 | 477 | No Rating | Oil & Gas Services |
| 5. Fleetwood Corporation | FWD | 6.23 | 314 | 325 | Buy | Consumer & Mining Services |
| 6. Mermaid Marine Australia Ltd | MRM | 1.58 | 287 | 339 | Buy | Oil & Gas Services |
| 7. Macmahon Holdings Limited | MAH | 0.345 | 246 | 278 | Speculative Buy | Mining & Civil Construction |
| 8. NRW Holdings Ltd | NWH | 0.900 | 218 | 271 | Buy | Mining & Civil Construction |
| 9. Neptune Marine Ltd | NMS | 0.560 | 164 | 194 | Speculative Buy | Marine Services |
| 10. Ausdrill Limited | ASL | 0.885 | 155 | 323 | Buy | Mining Services |
| 11. Cash Converters Ltd | CCV | 0.435 | 105 | 107 | Buy | Retail & Consumer Finance |
| 12. Southern Cross Electrical | SXE | 0.800 | 96 | 72 | Buy | Mining & Civil Construction |
| 13. Index Ltd | IMD | 0.460 | 86 | 115 | Buy | Oil & Gas / Mining Services |
| 14. GRD Limited | GRD | 0.410 | 79 | 113 | Buy | Mining & Civil Services |
| 15. Nomad Building Solutions Ltd | NOD | 0.490 | 66 | 92 | Speculative Buy | Residential & Mining Services |
| 16. Swick Mining Services Ltd | SWK | 0.380 | 58 | 112 | Speculative Buy | Mining Services |
| 17. Paladio Group Ltd | PDO | 0.480 | 56 | 51 | Buy | Mining & Civil Construction |
| 18. RCR Tomlinson Ltd | RCR | 0.435 | 53 | 106 | Speculative Buy | Mining & Industrial Services |
| 19. Lycopodium Limited | LYL | 1.35 | 51 | 48 | Neutral | Mining & Industrial Services |
| 20. VDM Group Limited | VMG | 0.240 | 27 | 111 | Speculative Buy | Mining & Civil Construction |
| | | | Sub-Total | 4,662 | 5,398 | |
| 49. | GRAND TOTAL | | 40,990 | 44,155 | | |

Source: IRESS, Hartleys Research. * 1 Jun 2009

HARTLEYS CORPORATE DIRECTORY

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Note: personal email addresses of company employees are structured in the following manner:
`firstname_lastname@hartleys.com.au`

Hartleys Recommendation Categories

| | |
|-----------------------|--|
| No Rating | No recommendation. |
| Buy | Share price appreciation anticipated |
| Speculative Buy | Share price appreciation anticipated but it is higher risk than a "Buy". For the share price to rise it may be contingent on the outcome of an uncertain or distant event. |
| Neutral | Take no action. Stock is already trading near the share price target and there are no foreseeable near term catalysts. |
| Reduce / Take profits | Stock is trading above the share price target and there is a near term negative catalyst that could cause temporary weakness. |
| Sell | Significant price depreciation anticipated |

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