

## MetalsX Ltd (MLX.ASX)

### Initiation – Australian High grade Tin producer, with Nickel, Gold and Base Metals exposure

#### Event:

- We initiate coverage on MLX with a BUY recommendation and a price target of A\$0.50/share.
- Quarterly Update and Wingellina announcement.

#### Investment Thesis:

- Operational improvements will reflect higher tin production in 2012:** MLX has recently undergone a strategic review directed at improving production from the Renison tin mine. The review resulted in MLX ordering four new loaders, three extra trucks, one extra Jumbo and one extra charge machine that will replace some of the existing fleet to allow more throughput at the mill with the aim of increasing production and lowering cash costs. Additionally, an improved mine plan is being scheduled which will provide MLX flexibility in its operations and the ability to improve feed through higher grade ore sources.
- Medium term tin is still in demand:** Globally the tin market remains tight with a current forecast deficit of approximately 10,000t in 2011 and 2012. We see this as positive for MLX, and expect operational improvements will help increase margins and lower cash costs driven by higher ore throughput and higher average feed grade. If we throw in higher tin prices and extension of mine life at Renison we can see MLX's tin projects shaping up to be a valuable income generator.
- Extension of the mine life is real and achievable:** MLX is part way through a 40,000m drill program at Renison to further upgrade and extend the current mine life. MLX objective is to achieve a Reserve life of seven years by June 2012. The current Resource is twelve years with a current Reserve life of four years at Renison.
- Potential production increase through Rentails:** MLX is looking at the application of new technology and tin fuming to treat over 19Mt of historic tailings currently onsite at the Renison project. The current Measured and Indicated resource is 18.95Mt at 0.44% tin and 0.21% copper which could potentially add a further 4.5-5.5Ktpa of tin metal into MLX's production profile post 2013.
- Wingellina Update:** Jinchuan, will no longer be converting their shareholding in MLX for a 20% interest in the Wingellina project. MLX is now focused on progressing a deal with other international partners. Additionally, MLX has undertaken field work activities during the year and is progressing with environmental studies, while funding requirements (\$2.23b) still pending.
- Strategic investments:** Management continue to hold a number of equity investments with the long term view of creating value for shareholders. In February 2011, MLX relinquished its holding in Jabiru (JML) to Independence Group (IGO) that gave MLX \$55m for a 12 month investment. Total equity investment value is ~\$67m including IGO (~\$37m), WGR (~\$18.6m), MUB (~\$6.5m) and Aziana (~\$5.1m). Cash on hand A\$78m.

#### Recommendation:

- We initiate coverage on MLX with a BUY recommendation and a price target of A\$0.50/share, which represents approximately 108% upside to the current share price.
- Our PT is derived using a Sum of parts valuation which includes an NPV on MLX's tin assets (~10%), a risked EV/Resource metric for Wingellina and current market pricing for equity valuations.

Rating	BUY
Previous	N/A
Price Target (A\$)	\$0.50
Previous (A\$)	N/A

Share Price (A\$)	\$0.24
52 week low - high (A\$)	0.13 - 0.45
Valuation (A\$/share)	\$0.47
Methodology	DCF/Sum of Parts
Risk	High

Capital Structure	
Shares on Issue (m)	1,340.5
Market Cap (A\$m)	315.0
Net Debt/(Cash) (A\$m)	-76.7
EV (A\$m)	238.3
Options on issue (m)	7.6
12mth Av Daily Volume ('000)	1,885

Board	
Warren Hallam	Managing Director
Peter Cook	Non Executive Chairman
Dean Will	Executive Director
Mick Jefferies	Non Executive Director
Sanlin Zhang	Non Executive Director

Major Shareholders	
Apac Resources Limited	29.6%
Jinchuan Group Limited	13.1%
COL Capital Limited	7.5%
Guinness Peat Group	6.7%

Key Milestones	
Renison Expansion - New Fleet delivery (8Ktpa)	Q4 2011
Rentails Extension Decision (5Ktpa)	Q2 2012
Wingellina approvals, and JV partners	Q4 2012

Key Metrics				
Year to June	2011a	2012e	2013e	2014e
Revenue (A\$m)	143.0	88.1	123.2	168.2
EBITDA (A\$m)	83.7	31.6	53.1	82.9
NPAT (A\$m)	79.6	18.1	32.4	50.4
EPS (c)	0.0	0.0	0.0	0.0
Op Cashflow (A\$m)	23.9	22.0	38.3	57.6
Capex (A\$m)	0.0	0.0	-53.7	-54.4
FCF (A\$m)	23.9	22.0	92.0	112.0

#### Share Price Graph



Analyst	
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**Metals X Ltd (MLX.ASX)**

Full Year Ended 30 Jun

Profit & Loss (A\$m)	2011a	2012e	2013e	2014e
<b>Revenue</b>	<b>72.3</b>	<b>88.1</b>	<b>123.2</b>	<b>168.2</b>
Other Revenue	70.7	0.0	0.0	0.0
<b>Revenue</b>	<b>143.0</b>	<b>88.1</b>	<b>123.2</b>	<b>168.2</b>
Operating costs	57.9	52.4	65.8	80.9
Exploration	0.0	0.0	0.0	0.0
Corporate costs	1.4	4.2	4.3	4.4
<b>EBITDA</b>	<b>83.7</b>	<b>31.6</b>	<b>53.1</b>	<b>82.9</b>
EBITDA margin (%)	58.5	35.8	43.1	49.3
D & A	3.5	5.4	6.4	10.5
<b>EBIT</b>	<b>80.2</b>	<b>26.2</b>	<b>46.7</b>	<b>72.4</b>
EBIT margin (%)	56.1	29.7	37.9	43.1
Net Interest (exp) / income	0.4	0.4	0.4	0.4
Associates	0.0	0.0	0.0	0.0
<b>Profit before tax</b>	<b>79.8</b>	<b>25.8</b>	<b>46.3</b>	<b>72.0</b>
Tax (exp) / benefit	0.2	7.7	13.9	21.6
<b>NPAT pre minorities</b>	<b>79.6</b>	<b>18.1</b>	<b>32.4</b>	<b>50.4</b>
Minority Interests	0.0	0.0	0.0	0.0
<b>NPAT pre sig items</b>	<b>79.6</b>	<b>18.1</b>	<b>32.4</b>	<b>50.4</b>
Significant items	17.3	0.0	0.0	0.0
<b>NPAT reported</b>	<b>79.6</b>	<b>18.1</b>	<b>32.4</b>	<b>50.4</b>
<b>NPAT adjusted *</b>	<b>62.3</b>	<b>18.1</b>	<b>32.4</b>	<b>50.4</b>
WA # Shares Diluted (m)	1,348.7	1,348.7	1,348.7	1,348.7
EPS adj ¢/ps	0.0	0.0	0.0	0.0

\* NPAT adjusted for significant items and amortisation of intangibles

Cash Flow (A\$m)	2011a	2012e	2013e	2014e
<b>EBITDA</b>	<b>83.7</b>	<b>31.6</b>	<b>53.1</b>	<b>82.9</b>
Net Interest (exp) / income	1.6	0.4	0.4	0.4
Tax	0.2	7.7	13.9	21.6
Other	0.6	0.0	0.0	0.0
<b>Operating Cashflow</b>	<b>23.9</b>	<b>22.0</b>	<b>38.3</b>	<b>57.6</b>
Capex	0.0	0.0	-53.7	-54.4
Net Acquisitions	0.0	0.0	0.0	0.0
Asset Sales	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
<b>Investing Cashflow</b>	<b>22.5</b>	<b>0.0</b>	<b>-53.7</b>	<b>-54.4</b>
Equity proceeds	0.0	0.0	0.0	0.0
Debt proceeds / (repayment)	0.0	-0.2	-0.2	-0.2
Dividends paid	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
<b>Financing Cashflow</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>
Net Cashflow	46.5	21.4	-16.0	2.6
<b>Free Cashflow</b>	<b>23.9</b>	<b>22.0</b>	<b>92.0</b>	<b>112.0</b>

Balance Sheet (A\$m)	2011a	2012e	2013e	2014e
<b>Cash</b>	<b>76.0</b>	<b>105.9</b>	<b>89.9</b>	<b>92.6</b>
Receivables	12.5	8.7	10.5	17.1
Inventories	13.2	13.2	13.2	13.2
PPE	15.1	26.7	78.0	125.8
Exploration & Development	77.9	70.8	66.9	63.0
Other	80.4	4.9	79.8	79.8
<b>Total Assets</b>	<b>275.0</b>	<b>305.2</b>	<b>338.2</b>	<b>391.4</b>
Payables	5.7	5.0	5.8	8.8
Tax liabilities	0.0	0.0	0.0	0.0
Debt	1.2	0.0	0.5	0.3
Other	4.2	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>11.1</b>	<b>9.9</b>	<b>10.5</b>	<b>13.3</b>
Reserves and capital	290.1	305.7	305.7	305.7
Retained earnings	-26.1	-10.4	22.0	72.4
Minorities	0.0	0.0	0.0	0.0
<b>Total Equity</b>	<b>264.0</b>	<b>295.2</b>	<b>327.7</b>	<b>378.1</b>

**Recommendation: BUY**

Price Target \$0.50

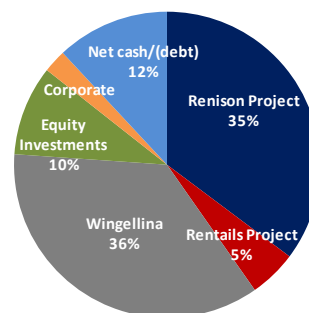
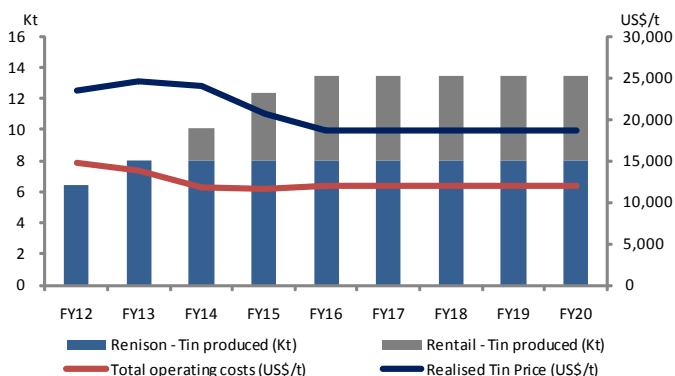
Capital Structure	
Shares on Issue (m)	1,340.5
Shares on Issue diluted (m)	1,348.0
<b>Market Cap (A\$m)</b>	<b>315.0</b>
Net Debt/(Cash) (A\$m)	-76.7
<b>EV (A\$m)</b>	<b>238.3</b>

Key Assumptions	2011e	2012e	2013e	LT
Tin (US\$/lb)	12.1	10.8	11.5	8.5
Tin (US\$/t)	26,688	23,693	25,346	18,734
AUD/USD	1.02	0.95	0.90	0.85

Production Summary	2011a	2012e	2013e	2014e
Production profile (Kt)	5.4	6.5	8.0	10.1
Operating costs (US\$/t)	16,000	14,763	13,874	11,865

Resource (100% Basis)	Type	Mt	%	Kt
Renison Tin	JORC	10,723	1.4	154
Rentails Tin	JORC	19,505	0.44	86
Wingellina Nickel	JORC	183,000	1.0	1,830

Valuation Summary	A\$m	P/NPV	\$/share
Renison Project	236	0.50	\$0.17
Rentails Project	34	0.50	\$0.02
Wingellina	240	0.20	\$0.18
Equity Investments	64	1.00	\$0.05
Corporate	-16	1.00	-\$0.01
Net cash/(debt)	78	1.00	\$0.06
<b>Total</b>	<b>636</b>		<b>\$0.47</b>

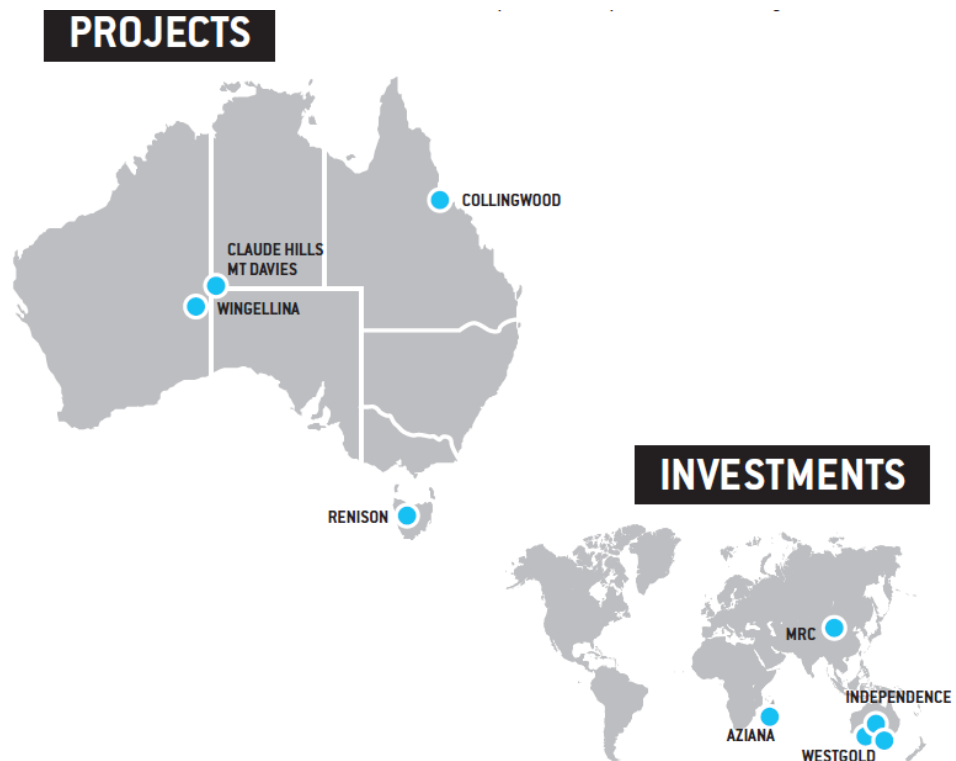
**Valuation Split (%)**

**Production (Mt) and Cost Profile (100% Basis)**


## COMPANY OVERVIEW

*High grades of 1.6% Sn, with production representing 2.5% of global primary tin supply.*

- Metals X (MLX) is a diversified resource house with a number of strategic assets and equity investments across Australia, Mongolia and Madagascar.
- The Company's flagship asset is the Renison tin mine (50% MLX) currently producing 6Ktpa with an expansion target of 8Ktpa in 2012 with the introduction of new mining fleet and improvement in operation efficiencies. MLX is the only ASX-listed tin producing company and represents approximately 2.5% of global primary tin supply.
- MLX is also looking at re-processing and recovery of its existing tailings from the Renison Bell mine. There is an estimated JORC of 18.957Mt of tailings at an average grade of 0.44% Tin and 0.21% Copper (containing over 83Kt of tin and over 40Kt of copper metal) that remain at the site from historic mining.
- MLX's second major asset, is the Wingellina Nickel Project (100% MLX) located in Western Australia. MLX is seeking to develop Wingellina into a producing 40Ktpa nickel and 3Ktpa cobalt operation with a +40yr mine life.
- Along with the world class tin and nickel projects, MLX holds a number of strategic holdings in Australian listed resource companies providing exposure to copper, gold, phosphate, lead, zinc, tungsten and uranium. Key holdings include: Independence Group (IGO, 3.2%); Westgold Resources (WGR, 32%); Mongolian Resource Company (MUB, 17%); and Aziana Limited (pending IPO, 25%).
- MLX's key focus is to create shareholder value through a pipeline of diversified base metal assets. The companies main projects and investments are shown in figure 1 below.

**Figure 1: MLX's Project and Investment Locations**



*MLX's key focus is to create shareholder value through a pipeline of diversified base metal assets.*

Source: Metals X Ltd

## SUMMARY OF PROJECTS

The Company has a diversified portfolio of base metal assets including:

### Renison Project – (Dundas Trough, Tasmania)

*Renison is the largest and highest grade tin resource in Australia and is one of the biggest single deposits ever mined in the world.*

- The Renison tin project is MLX's flagship asset, located approximately 15km north east of Zeehan on the west coast of Tasmania. The project is the largest and highest grade tin resource in Australia and is one of the biggest single deposits ever mined in the world.
- MLX currently produces approximately 6Ktpa of contained tin through its 50/50 joint venture of Bluestone Mines Tasmania (BMTJV) with Yunnan Tin Parksong Australia Holdings Pty Ltd ("YTPAH"). The current name plate capacity on the plant 680-700Ktpa which at current grades (1.6% Sn) is equivalent to 8Ktpa.

### Rentails Project – (Dundas Trough, Tasmania)

*Rentails (the Renison expansion project) could potentially add a further 4.5 - 5.5 Ktpa of tin @ 0.44% and 1.5-2.5 Ktpa of copper @ 0.21% into MLX's production profile post 2013*

- The Rentails project is an expansion of Renison, with the objective of applying new technology and tin fuming to treat over 19Mt of historic tailings currently onsite at the Renison project. The current Measured and Indicated resource is 18.95Mt at 0.44% tin and 0.21% copper which could potentially add a further 4.5-5.5Ktpa of tin metal and 1.5-2.5Ktpa of copper into MLX's production profile post 2013.

### Central Musgrave Project (Wingellina) - (Central Musgrave Ranges WA/SA)

*The Wingellina project is one of the largest undeveloped Nickel Limonite deposits in the world.*

- The Central Musgrave Project (CMP) spans some 1,957km<sup>2</sup> and includes the Wingellina deposit in Western Australia, the Claude Hills Nickel prospect and the Mt Davies exploration prospect in South Australia.
- The Wingellina project covers the main portion of the CMP, and is one of the largest undeveloped nickeliferous 'Pure Oxide' limonite deposits in the world.
- Wingellina has a current JORC resource of over 180Mt of Nickel Metal. The first phase feasibility was completed in 2008 for a 40Ktpa nickel and 3.5Ktpa cobalt operation with a 40 year mine life.

### Equity Investments – (Australia, Madagascar and Mongolia)

*Management continue to hold a number of equity investments with the long-term view of creating value for shareholders.*

- Along with the world class tin and nickel projects, MLX holds a number of strategic holdings in Australian listed resource companies providing exposure to copper, gold, phosphate, lead, zinc, tungsten and uranium. Key holdings include: Independence Group (IGO, 3.2%); Westgold Resources (WGR, 32%); Mongolian Resource Company (MUB, 17%); and Aziana Limited (pending IPO, 25%).

**Figure 2: MLX Project Snapshot**

MLX Projects	Ownership interest	JORC (Mt)	(g/t)	(kt)	Net to MLX
Renison	50%	10.7	1.44% (Sn)	153.9	77.0
Rentails	50%	19.5	0.44% (Sn)	85.8	42.9
Wingellina	100%	183.0	1.00% (Ni)	1,830.0	1,830.0
Equity Investment					Ownership interest
Independence Group (IGO)					3.2%
West Gold Resources (WGR)					25.0%
Mongolian Resource Company (MUB)					17.0%
Aziana Limited (Pre-IPO)					25.0%

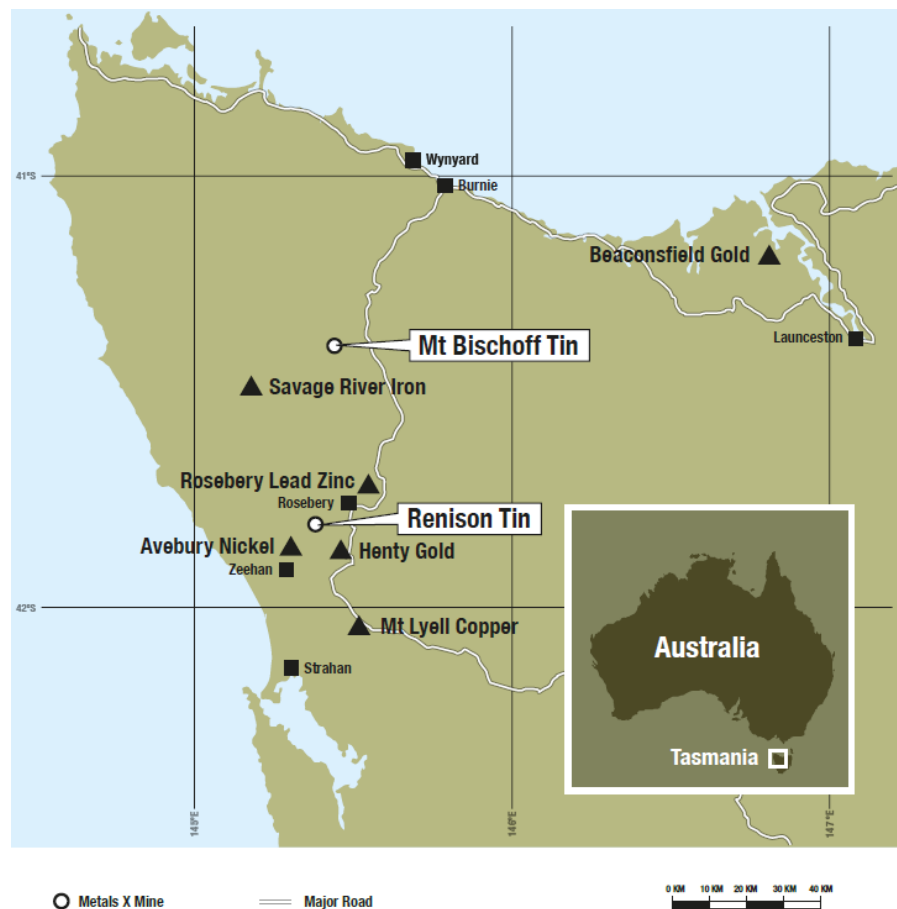
Source: Metals X Ltd

### RENISON PROJECT, TASMANIA (Dundas Trough)

*Renison is the largest and highest grade tin resource in Australia and is one of the biggest single deposits ever mined in the world.*

- The Renison tin project is MLX's flagship asset, located approximately 15km north east of Zeehan on the west coast of Tasmania. The project is the largest and highest grade tin resource in Australia and is one of the biggest single deposits ever mined in the world. The mine has been operating since the 1890's.
- The Renison tin operations currently produce ~2.5% of the world's global tin supply. The project was commissioned during 2009 with a nameplate capacity on the plant of 680-700Ktpa ROM which at current grades is equivalent to 8Ktpa. Currently ore is being sourced from underground mining operations.
- In March 2010, 50% of the project was sold to Hong kong listed Yunnan Tin Group (263 HK Equity : YTG) in a JV partnership, for \$50m cash which included providing security of concentrate sales and exposure to new and proprietary smelting and refining technology critical to the planned expansion of tin production from the Rentails Tailings re-treatment project. YTG is one of the largest producers of tin in the world with current production of 60Kt of tin metal per annum.
- MLX is currently investigating the expansion of Renison (Rentails project) which involves the treatment of over 19Mt of historic tailings from the Renison tin concentrator which could potentially improve MLX's production profile post 2013 to 13.5Ktpa. Figure 3 highlights the Renison tin project located on the west coast of Tasmania.

**Figure 3: Renison Project Location**



Source: Metals X Ltd

**Resource & Reserves**

- MLX currently has ~240Kt of contained tin equivalent in JORC Resources and ~119.8Kt in Reserves. Figure 4 highlights the current mineralised inventory split for MLX's Renison and Rentails project.

**Figure 4: JORC Resource & Reserves**

Renison Resources		TIN		COPPER		
Project	Tonnes (Kt)	Grade (%Sn)	Sn Metal (t)	Tonnes (Kt)	Grade (%Cu)	Cu Metal (t)
Measured	917	2.01	18,473	479	0.28	1,321
Indicated	4,260	1.52	64,585	2,995	0.39	11,737
Inferred	3,177	1.66	2,732	1,242	0.36	4,426
<b>Total</b>	<b>8,354</b>	<b>1.63</b>	<b>135,790</b>	<b>4,716</b>	<b>0.37</b>	<b>17,484</b>

Renison Reserves		TIN		COPPER		
Project	Tonnes (Kt)	Grade (%Sn)	Sn Metal (t)	Tonnes (Kt)	Grade (%Cu)	Cu Metal (t)
Proved	378	1.67	6,313	376	0.13	492
Probable	2,230	1.39	30,890	1,541	0.29	4,481
<b>Total</b>	<b>2,608</b>	<b>1.43</b>	<b>37,202</b>	<b>1,918</b>	<b>0.26</b>	<b>4,973</b>

Rentails Resources		TIN		COPPER		
Project	Tonnes (Kt)	Grade (%Sn)	Sn Metal (t)	Tonnes (Kt)	Grade (%Cu)	Cu Metal (t)
Measured	19,505	0.44	86,594	19,505	0.21	41,353
Indicated	0	0	0	0	0	0
Inferred	0	0	0	0	0	0
<b>Total</b>	<b>19,505</b>	<b>0.44</b>	<b>86,594</b>	<b>19,505</b>	<b>0.21</b>	<b>41,353</b>

Rentails Reserves		TIN		COPPER		
Project	Tonnes (Kt)	Grade (%Sn)	Sn Metal (t)	Tonnes (Kt)	Grade (%Cu)	Cu Metal (t)
Proved	0	0	0	0	0	0
Probable	18,664	0.44	82,553	18,664	0.21	34,409
<b>Total</b>	<b>18,664</b>	<b>0.44</b>	<b>82,553</b>	<b>18,664</b>	<b>0.21</b>	<b>34,409</b>

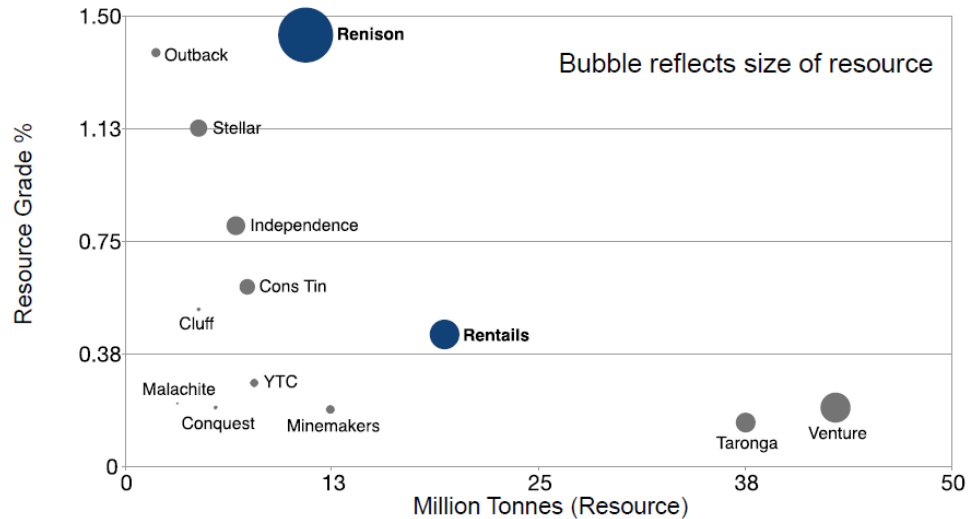
Source: Metals X Ltd

- At a projected run rate of 8Ktpa for Renison, the current Reserve life is approximately 4 years. MLX's ongoing drill program is aimed at extending the Reserve life of Renison by an additional 3-4 years, and assuming the total Indicated and Measure Resource can be converted to a Reserve at Renison, the mine life would be extended by approximately 3-4 years.
- For Rentails the current Reserve life would be approximately nine years at a recovery rate of 60%, based off a 5.5Ktpa operation.

### Geology

- The Renison deposit is a primary hard rock carbonate ore deposit , mostly pyrrhotite rich hosted within dolomites and skarns, on top of a granitic bed.
- The deposit at Renison is the largest and highest grade tin resource in Australia as highlighted in figure 5 and is one of the biggest single deposits ever mined in the world. MLX controls approximately 36% of Australian Tin Resources within Renison and Rentails.

**Figure 5: Renison & Rentails project grade and size**



Source: Metals X Ltd

**Over 36% of Australian Tin Resources are controlled by MLX's Bluestone JV.**

### Exploration Program

**MLX goal is to extend Reserves by an additional 3 years and Resources by an additional 7 years by June 2012.**

- We recently visited MLX Renison mine to meet with chief geologists who took us through the existing exploration plan to extend the mine life at Renison. The visit helped us gain a better understanding of the geology and exploration potential of the Renison project.
- MLX is well into its 40,000m exploration program that should be completed by October 2012. Drilling is aimed to further upgrade and extend the current mine life at Renison. A resource upgrade is currently under review and we expect a conversion from Resource to Reserves by June 2012 that could potentially extend the Reserve life by an additional 3 years and Resources by an additional 7 years.
- The highlight in exploration activity was Area 4 where over 12,000m of drilling was completed and resulted in a significant increase in the total resource of Area 4 zone to 1.33Mt at 1.9% Sn. Drilling in Area 4 also returned numerous bonanza intercepts, including 14m at 8.11% Sn, 8.78m at 6.1% Sn and 8.27m at 5.78%Sn with the mineralisation remaining open to the south and down plunge.
- An additional note of significance was the drilling of a step out hole approximately 100m away from the current resource boundary which returned an intercept of 4.18m at 13.87% Sn and 0.36% Cu from hole U4272, which gave a good indication of the growth potential of existing resource.

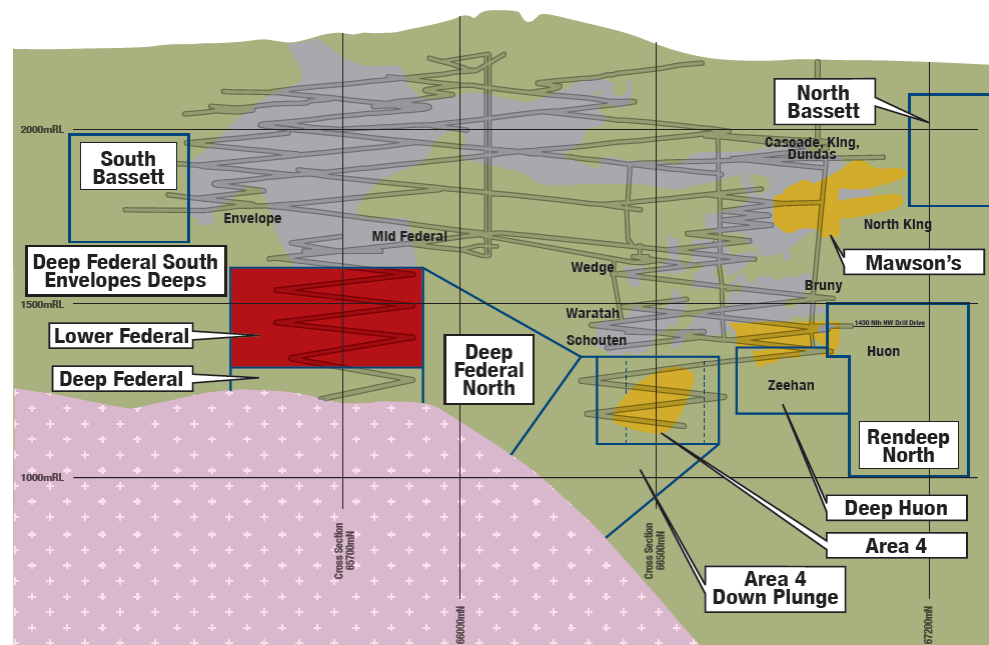
### Operations

*Recent strategic review of operations will improve efficiency through new gear and schedule flexibility.*

*MLX expects to achieve a target mine productivity of 60Kt of ore per month and 8Ktpa of tin concentrate in early 2012.*

- MLX has recently hired two new mining engineers including executive director Dean Will who we met during our recent site visit to the Renison tin mine. At site we discussed the recent strategic review directed at improving production from the Renison tin mine as well as took a tour of the existing processing plant which now has the copper circuit fully enabled.
- The key take outs from the visit gave us comfort around the improved mine plan that would ultimately allow MLX to source ore from various areas in the underground mine. Additionally, MLX have ordered four new 2,900 loaders that will replace the existing 1520 fleet to allow more throughput at the mill with the aim of increasing production and lowering cash costs. MLX have already taken the delivery of two 2900 with the other two new loaders expected by December 2011. Additionally three new sixty tone trucks will replace the current six thirty tonne trucks as well as 1 new Jumbo and 1 new charge machine with a total CAPEX of \$11m.
- MLX also plans to develop the North and the South decline so that it can connect underground. This will provide MLX flexibility in terms of scheduling with the goal of improving the efficiency of the mine while also allowing new underground drill pads to be established to test Deep Federal North, Rendeep North, Deep Huon and Area four Down plunge as identified in figure 6 below.
- By connecting the declines underground and with the addition of new mining fleet, the company expects to achieve its target mine productivity of 60Kt of ore per month and 8Ktpa of tin in concentrates when mining plans are fully implemented in early 2012 from both the North and South declines.

**Figure 6: Expansion Plans**



Source: Metals X Ltd

**Renison expansion could add a further 4.5-5.5Ktpa tin metal into production post 2013.**

**Expanded tin operations at Renison of 13Ktpa could generate ~\$190m indicative EBITDA.**

- Additionally, there is significant potential to improve production through the commissioning of Rentails. MLX is currently looking at the application of new technology and tin fuming to treat over 19Mt of historic tailings currently onsite at the Renison project. The current Measured and Indicated resource is 18.95Mt at 0.44% Sn and 0.21% Cu (containing over 83,000t of tin and over 40,000t of copper metal) that remain at the site from the historic processing of tin ores from the Renison Bell mine. We expect the Renison expansion (Rentails) could potentially add a further 4.5 – 5.5Ktpa of tin metal into MLX's production profile post 2013.
- A completed BFS has indicated ~\$120-200m capex (100% basis) is required to develop a 9.5yr tailings operation, producing 4.5 – 5.5Ktpa tin and 1.5- 2.5Ktpa copper.
- We expect expanded operations to deliver significant increase in operating cashflow. At current spot prices of >\$21,000/t and target operating cash costs of \$11,500-12,500/t for the expanded operation (13Kt tin metal) can generate ~\$190m indicative EBITDA (100% basis).
- Copper credit is expected to reduce overall operating cost at Renison. The recent commissioning of the copper circuit has enabled the Renison project to produce copper concentrate as a co-product. For the last financial year 94t of copper was produced with a current production rate of 0.5Ktpa and expected to increase to 1.2-1.5Kt by 2013 leading to an operating cost saving of up to \$1,000/t of tin produced based on credits for copper.
- Figure 7 shows the size of the existing crushers within the processing plant at Renison.

**Figure 7: MLX Plant**

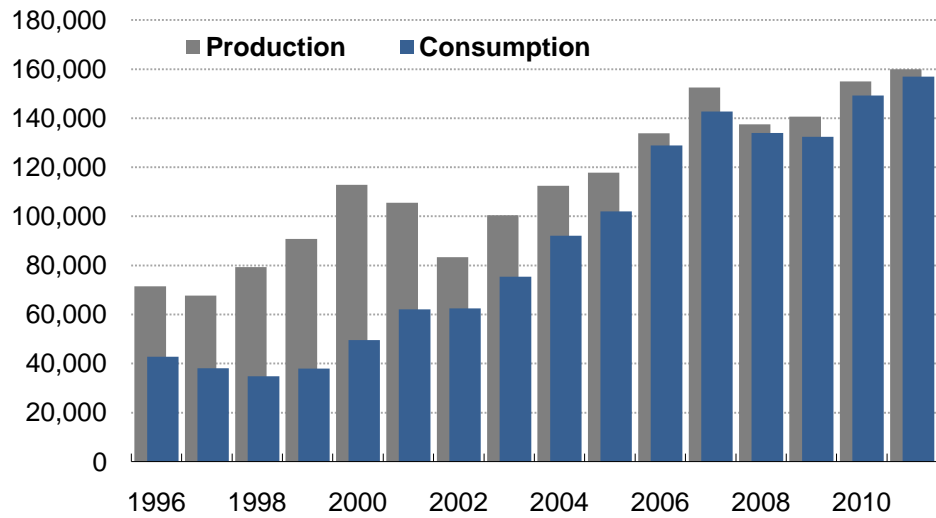


Source: Metals X Ltd

**TIN OUTLOOK, SUPPLY/DEMAND FACTORS**

- Overall, the supply/demand outlook for tin continues to remain tight in China despite overall base metals outlook uncertainty. Significant constraints in world tin supply as well as cost pressures with Indonesian producers has limited production output this year.

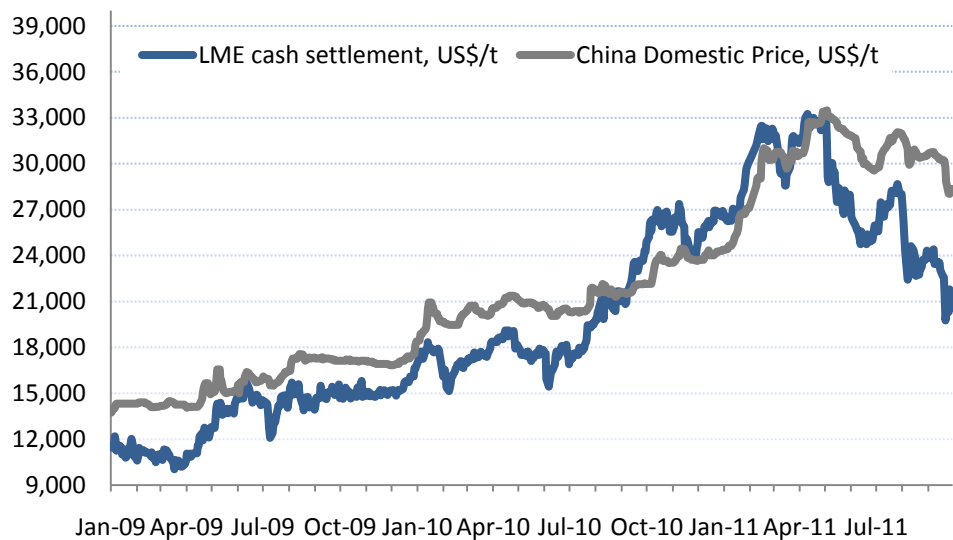
**Figure 8: Chinese Supply /Demand factors**



Source: Bloomberg

- It is forecast that once Chinese consumption exceeds domestic production, Chinese consumers will start buying on the LME market where the current mis-match in pricing between LME and China will come into balance. We have forecast an average long-term tin price of US\$25,850 for the life of the Renison project.

**Figure 9: China/LME premium**



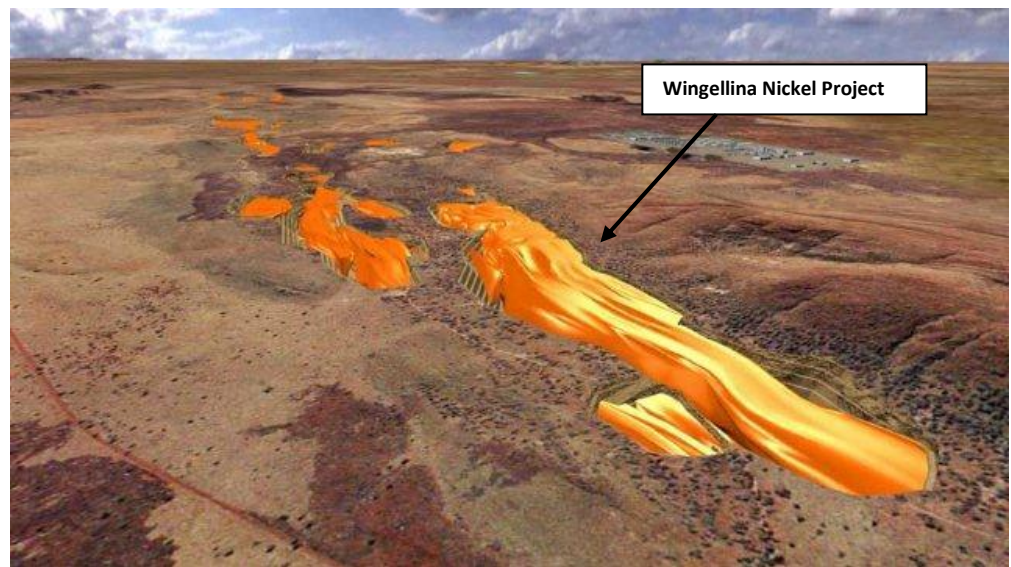
Source: Bloomberg

*The Wingellina project is one of the largest undeveloped Nickel Limonite deposits in the world.*

### WINGELLINA PROJECT, WA (Central Musgrave Ranges)

- The CMP spans some 1,957km<sup>2</sup> and includes the Wingellina deposit in Western Australia, the Claude Hills Nickel prospect and the Mt Davies exploration prospect in South Australia.
- The Wingellina project is the main current identified JORC Resource in MLX's Central Musgrave Project (CMP), and is one of the largest undeveloped nickeliferous 'Pure Oxide' limonite deposits in the world.
- In April 2011, MLX announced it had reached a Heads of Agreement with China's largest nickel producer, Jinchuan Group Ltd ("Jinchuan") to sell a 20% direct interest in the Wingellina Project. On the 26<sup>th</sup> of October 2011, Jinchuan advised Metals X that it has not received approval from its internal control department and Chinese Government regulatory authorities to enable it to convert their 13.13% shareholding in MLX into a direct 20% interest in the Central Musgrave Project (CMP).
- MLX has advised that it is in discussion with several other parties that have shown an interest in the development of the Wingellina Project, with the objective of forming a consortium to develop and finance the project. We expect MLX would need to sell down at least 60% of Wingellina to help the project get off the ground.

**Figure 10: Location of Project**



Source: Metals X Ltd

**Resource & Reserves**

**Over 92% of the resource is defined as a Probable Mining Reserve in accordance with JORC.**

- The Wingellina project is a world scale deposit with a current Mineral Resource of (183Mt @ 1% Ni and 0.8% Co) of which over 92% of the Resource has been converted into a probable mining Reserve in accordance with the JORC code. Figure 11 and Figure 12, highlights the current JORC at Wingellina.

**Figure 11: JORC Resource**

Wingellina Resource	MLX interest	Tonnes (Mt)	Grade (% Ni)	Ni Metal (Mt)
Measured	100%	68.85	1.00	0.689
Indicated	100%	101.67	0.97	0.987
Inferred	100%	16.21	0.97	0.157
<b>Total</b>		<b>186.73</b>	<b>0.98</b>	<b>1.832</b>

Source: Metals X Ltd

**Figure 12: JORC Reserve**

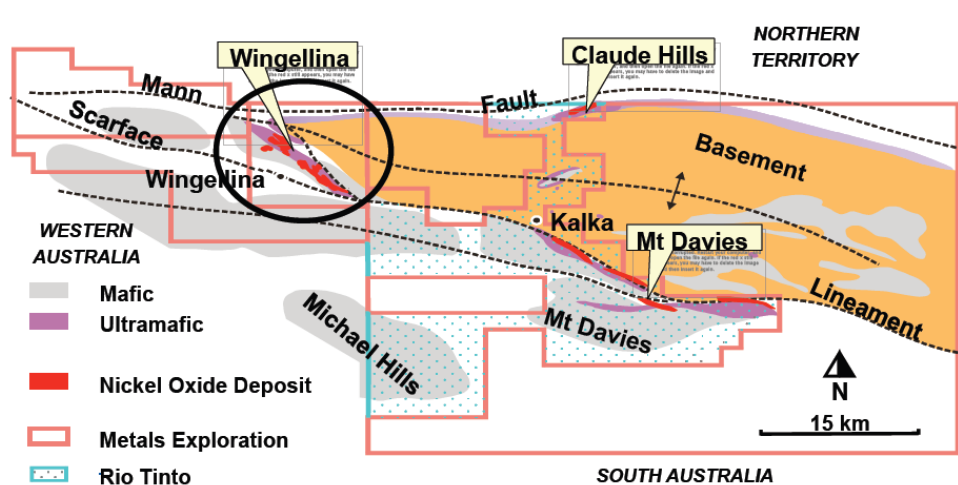
Wingellina Reserves	MLX interest	Tonnes (Mt)	Grade (% Ni)	Ni Metal (Mt)
Proved	100%	0	0	0
Probable	100%	170.9	0.98	1.675
<b>Total</b>		<b>170.9</b>	<b>0.98</b>	<b>1.675</b>

Source: Metals X Ltd

**Geology**

- The CMP consists of exploration titles covering the Giles complex ultramafic and mafic layered intrusive which are known to host nickel and copper sulphide mineralisation as well as nickel and cobalt rich limonite ores.
- The ultramafic lithologies within the project area at Wingellina and Claudine Hills have been deeply weathered to form a nickeliferous orebody. Mining will be free-digging with ore to be extracted across a number of pits with average waste to ore strip ratio's of 0.50:1 for the first 20 years.
- These types of nickeliferous orebodies are favourable for high bulk low cost mining operations. Figure 13 highlights the tenement area for the CMP.

**Figure 13: Global Nickel Deposits**



Source: Metals X Ltd

### Operations

- A feasibility study completed in September 2008 defined a robust project targeting production of 40Ktpa of nickel and 3Ktpa of cobalt in concentrate over a 40 year mine life.
- The feasibility study assumed a nickel price of US\$20,000/t nickel, US\$40,000/t cobalt and an exchange rate of AUD \$0.85, resulting in an estimated NPV (@8%) of \$3.4B at a production cost of US\$3.34/lb after cobalt credits. Total capex estimate is \$2.23b. A snapshot of the Wingellina project is highlighted in figure 14 below.

**Figure 14: Wingellina Project Snapshot**

<b>Location</b>	The Central Musgrave Ranges, Western Australia
<b>Ownership</b>	100%
<b>Status</b>	Exploration
<b>Current Resource</b>	183Mt @ 1% Ni
<b>Current Reserve</b>	167Mt @ 1% Ni (92%)
<b>First Production</b>	TBA, (Heavily dependent on funding)
<b>Production Profile</b>	4.3Mtpa, 40Ktpa of Ni & 3Ktpa Co
<b>Mine life</b>	39 years
<b>Capex</b>	US\$2.23b
<b>Opex</b>	US\$3.34/lb Ni (after cobalt credits)
<b>Assumptions</b>	Ni US\$20,000/t, (Ni US\$9.07/lb), Co US\$20/lb
<b>Feasibility NPV</b>	@ 8% A\$3.4Bn
<b>EV/Resource</b>	\$0.30/lb
<b>Risked weight</b>	80%
<b>FSB Valuation</b>	\$240m

*Source: FSB Research*

- Mining access was signed with Native Title in July 2010 and covers an area in excess of 19,000Km<sup>2</sup> we now see financing and final statutory environmental and regulatory approvals as the biggest risk to getting this project off the ground.
- During the year, MLX focused on the following key areas at the CMP including:
  1. Completing a mining agreement with native title holders that gives the company the right to develop and mine the wingellina project;
  2. Advancing financing and development options;
  3. Water exploration;
  4. Finalising statutory and environmental approvals and undertaking field work necessary to complete approvals; and
  5. Expanding the resource base across the South Australian tenements.

- The Public Environmental Review document required for the environmental approvals process is ongoing.
- MLX advised in the previous quarter that they had located a water aquifer on an area located approximately 100Km to the south west of Wingellina. Recent drilling at permit 69/12 resulted in a significant aquifer at approximately 140m below surface with drilling unable to progress deeper than 230m due to substantial water pressure within the aquifer. MLX has now applied for a new clearing permit to complete a detailed definition of the proposed water source.
- Officers from the EPA visited Wingellina during the September quarter as part of the approvals process. The EPA did not report any issues as a result of the site visit.

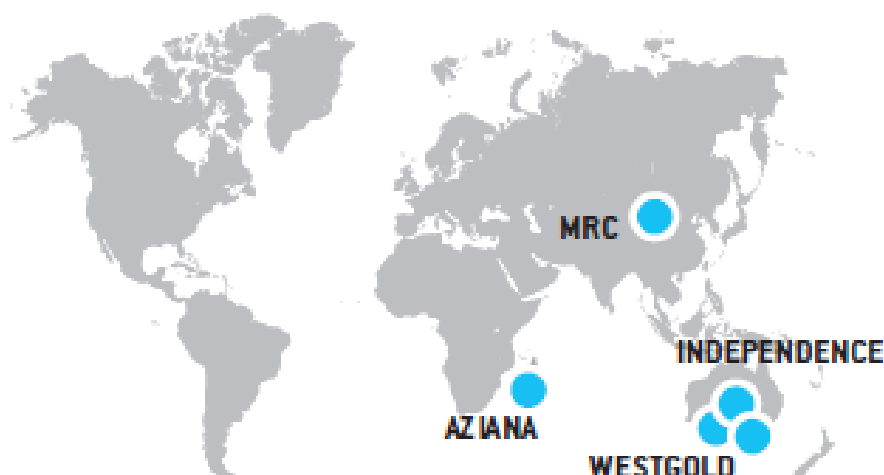
### **Infrastructure**

- The CMP project is capital intensive with an estimated construction cost of US\$2.2b (plus EPCM and contingency). The project is fairly isolated in terms of its location and our view is a long-term project partner is required to assist with potential financing and development.
- MLX is also continuing discussions with the Northern Territory and South Australian authorities relating to the issue of rail, port and suitable infrastructure options for the project.
- We expect a long lead time to production given the development and financing hurdle at Wingellina, and as a result have chosen to value this project on an insitu JORC EV/lb multiple.
- We recognise that there is over 92% of the resource in reserves and based on the 2008 feasibility the long term NPV is significantly higher \$3.4Bn, than where we are currently valuing Wingellina. However we still see this project as heavily dependent on funding and have discounted the current value attributable to this project with a view to rerating this project as key milestones are achieved.

### STRATEGIC INVESTMENTS, (Australia, Mongolia and Madagascar)

- Metals X has over the past few years built a diverse portfolio of strategic investments aimed at building the company's mineral interests with the long-term view of creating value for shareholders.
- The location of MLX's Strategic investments is highlighted in Figure 15 below.

**Figure 15: Strategic Equity Investments**



Source: Metals X Ltd

- In February 2011, MLX relinquished its holding in Jabiru (JML) to Independence Group (IGO) that gave MLX \$55m for a 12 month investment. Management continues to hold the view that their early entry to equity investments will provide longer term value for existing shareholders.
- Total equity investment value and current level of ownership interest by MLX is highlighted in figure 16 below with total market value ~A\$67m including IGO (~\$37m), WGR (~\$18.6m), MUB (~\$6.5m) and Aziana (~\$5.1m). Additionally, MLX has Cash on hand ~A\$78m.

**Figure 16: Equity Investment Value**

Equity Investment	Ownership interest	Value (\$m)
Independence Group (IGO)	3.2%	37.0
West Gold Resources (WGR)	25.0%	18.6
Mongolian Resource Company (MUB)	17.0%	6.5
Aziana Limited (Pre-IPO)	25.0%	5.1
<b>Total</b>		<b>67.2</b>

Source: Metals X Ltd, FSB Research



## FINANCIALS AND VALUATION

*We have applied a sum of parts valuation for MLX using a combination of a DCF across its Tin project as well as an EV/t of resource for the Wingellina nickel project, and current market prices for MLX's listed equity investments.*

- In determining an appropriate valuation methodology to use for MLX we have considered the following factors:
  1. MLX is an existing producer across its Tin assets;
  2. It is also an emerging developer in nickel with a substantial resource and a large CAPEX requirement at Wingellina ; and
  3. Has a number of strategic equity investments in listed companies.
- As a result, we have valued MLX using a sum of parts valuation. Our \$0.50 price target is based on the following:
- We have applied a sum of parts valuation for MLX using a combination of a DCF across its Tin projects as well as an EV/lb of resource for the Wingellina nickel project, and current market prices for MLX's listed equity investments.
- We have taken a conservative approach to Wingellina given the expected long lead time to production and the development and financing hurdle that MLX is presented with. As a result we have chosen to value this project on a EV/Resource multiple based on JORC, and then applied a risk weigh of 80%.
- In total MLX has cash and equity investments valued at ~A\$145m.

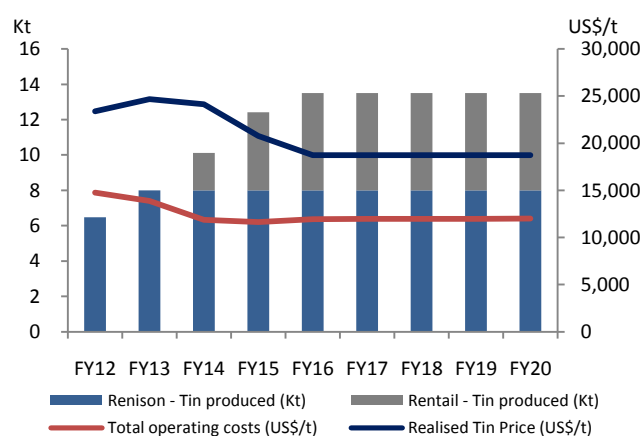
**Renison and Rentals Valuation**

- We have modelled both existing production at Renison and included the expansion plans for the Rentals tailings project post 2013. Figure 17 highlights the operational and financial summary used in our NPV valuation.

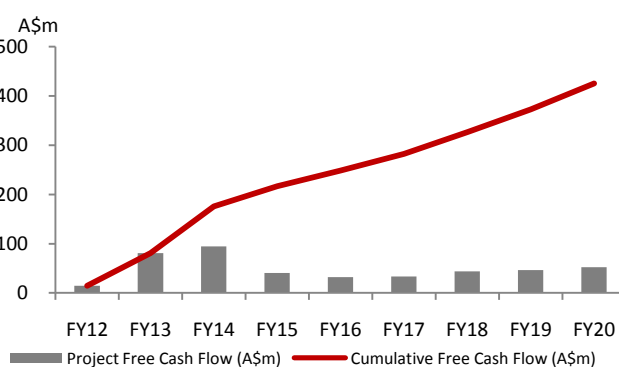
**Figure 17: Renison & Rentals Operational and Financial Summary**

Year Ending 30 June	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Tin (US\$/lb)	12.11	12.78	12.94	10.63	10.63	10.63	10.63	10.63	10.63
AUD/USD (\$)	\$0.95	\$0.90	\$0.85	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80
Renison - Tin produced (Kt)	6.5	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Rentail - Tin produced (Kt)	0.0	0.0	2.1	4.4	5.5	5.5	5.5	5.5	5.5
Realised Tin Price (US\$/t)	23,390	24,679	24,123	20,776	18,734	18,734	18,734	18,734	18,734
Total operating costs (US\$/t)	14,763	13,874	11,865	11,644	11,944	11,958	11,973	11,988	12,003
Total Tin Sales (A\$m)	79.7	109.7	143.6	161.2	158.2	158.2	158.2	158.2	158.2
Total Copper Sales (A\$m)	8.4	13.4	24.6	34.9	41.1	46.1	51.2	56.4	61.8
<b>Total Revenue (A\$m) (50% basis)</b>	<b>88.1</b>	<b>123.2</b>	<b>168.2</b>	<b>196.2</b>	<b>199.3</b>	<b>204.2</b>	<b>209.3</b>	<b>214.6</b>	<b>219.9</b>
Operating Costs (A\$m)	52.4	65.8	80.9	107.3	122.4	125.6	128.8	132.1	135.5
<b>EBITDA (A\$m)</b>	<b>31.6</b>	<b>53.1</b>	<b>82.9</b>	<b>84.3</b>	<b>72.2</b>	<b>73.9</b>	<b>75.7</b>	<b>77.5</b>	<b>84.4</b>
Depreciation (A\$m)	5.4	6.4	10.5	10.8	10.8	10.8	10.8	10.8	10.9
<b>EBIT (A\$m)</b>	<b>26.2</b>	<b>46.7</b>	<b>72.4</b>	<b>73.5</b>	<b>61.4</b>	<b>63.1</b>	<b>64.9</b>	<b>66.7</b>	<b>73.5</b>
Tax (A\$m)	7.7	13.9	21.6	22.0	18.3	18.8	19.5	20.0	22.0
Capex (A\$m)	0.0	-53.7	-54.4	0.0	0.0	0.0	0.0	-1.1	-2.3
<b>Project Free Cash Flow (A\$m)</b>	<b>18.4</b>	<b>86.5</b>	<b>105.2</b>	<b>51.6</b>	<b>43.1</b>	<b>44.3</b>	<b>45.4</b>	<b>47.8</b>	<b>53.7</b>
<b>NPAT (A\$m)</b>	<b>18.4</b>	<b>32.8</b>	<b>50.8</b>	<b>51.6</b>	<b>43.1</b>	<b>44.3</b>	<b>45.4</b>	<b>46.7</b>	<b>51.4</b>
Minority interests (A\$m)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: FSB Research

**Figure 18: Production and Opex for Tin projects**


Source: FSB Research

**Figure 19: Tin projects Free Cash Flow**


Source: FSB Research

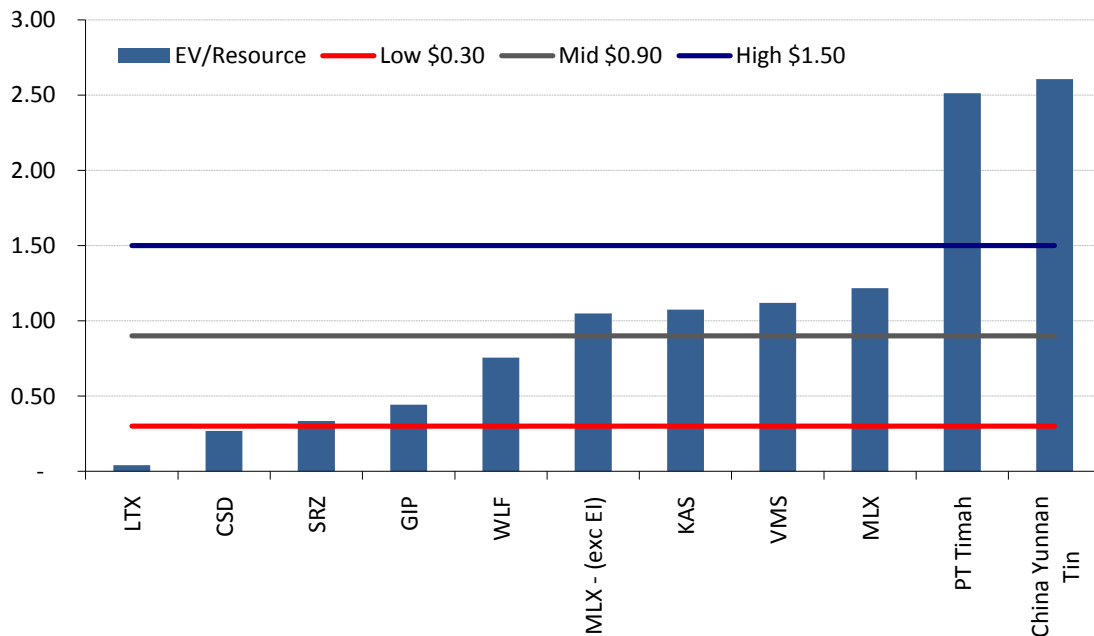
- Our NPV<sup>10</sup> for Renison and Rentals is \$246m and \$44m respectively is based off an 11 year mine life at Renison and 9.5 years on the Rentals project. We forecast cumulative free cash flows to grow from approximately \$14m in FY12 to approximately \$400m by 2020 in line with production increases and margin improvements at the Renison project.

**PEER COMPARISON TIN**

**MLX trades at a significant discount to existing producers PT Timah and China Yunnan Tin at \$0.49/t on an EV/Resource basis after stripping out Wingellina and Equity Investments.**

- We have compared MLX to a number of its peers including explorers, developers and producers. The market is valuing MLX’s peers between \$0.04/t to \$2.61/t .
- MLX’s closest peer comparables in our view would be Indonesian listed PT Timah (TINS:IJ) and China Yunnan Tin (263 HK), both existing producers with China Yunnan being the other 50% holder in MLX’s project.
- The average EV/t for a producer is \$2.50/t Vs \$0.59/t for an explorer. The current EV on MLX is \$1.22/t which is at a deep discount to existing producers. If we strip out MLX’s equity investments we can see MLX trades at a slight discount to existing developer KAS at \$1.05/t on an EV/Resource basis despite being in production and having a much higher head grade.
- On an implied EV of \$2.50/t for its tin assets, adding back cash and equity investments and including wingellina, we get an implied valuation of \$673m for MLX which is equivalent to a PT of \$0.51/share and reaffirms our \$0.50/share valuation for the stock.
- We would expect MLX to trade at a small discount to PT Timah and China Yunnan given the economies of scale both companies have in the tin business, but expect a more appropriate EV/Resource metric to be closer to the \$2.00/t level once the mine life can be extended at Renison.

**Figure 20: EV/Resource**

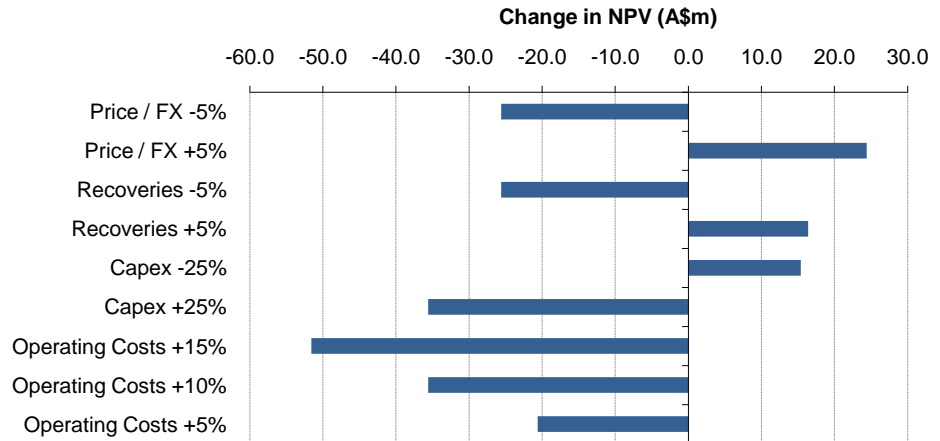


Source: FSB Research, Company Announcements.

**Sensitivities**

- Figure 21 shows a sensitivity analysis for MLX’s change in NPV based on changes in Tin prices, changes in recoveries and changes in CAPEX and Operating costs. Given MLX has high fixed costs, for every 5% increase in operating costs will impact MLX’s valuation by circa \$20m. Likewise for every +/-5% change in Tin pricing will see MLX’s base valuation change by -\$25/+25m.

**Figure 21: Sensitivity Analysis**

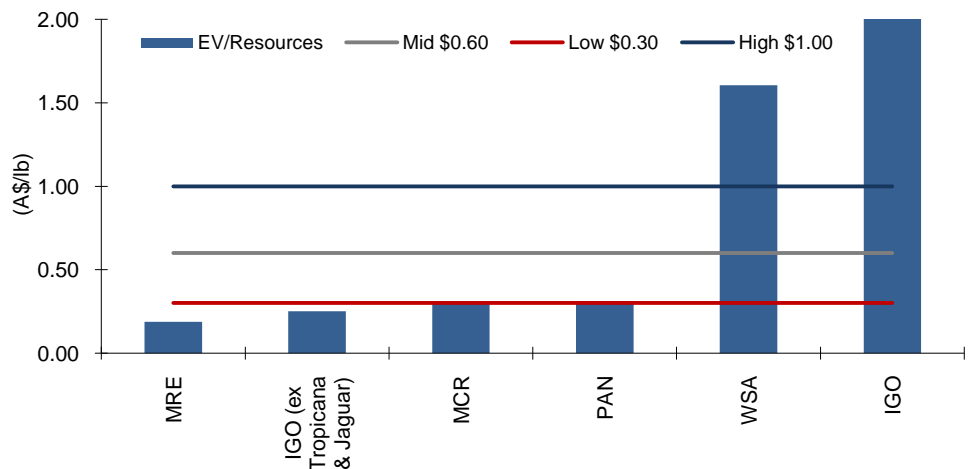


Source: FSB Research

**PEER COMPARISON NICKEL**

- MLX’s closest peer comparables for the Wingellina Nickel project in our view would be the ASX listed Nickel producers. We have conservatively valued Wingellina on a low EV/lb valuation metric of \$0.30 for a JORC Resource of 4.1Bn/lbs of Ni. This is equivalent to \$1.2b. We have applied a risk weight to this project of 80% given long lead time to production as well as the environmental and financing hurdles to get the project into development. As a result we have valued the project at \$240m.

**Figure 22: EV/Resource**



Source: FSB Research, Company Announcements.

**COMPANY VALUATION AND PRICE TARGET**

**Risked Valuation - \$639m, \$0.47/share**

**Price Target - \$0.50/share**

- We initiate coverage on MLX with a BUY recommendation and a price target of A\$0.50/share, in line with our valuation of \$0.47/share.
- Our PT is derived using a DCF valuation across its Tin operations as well as a sum of parts valuation using a risked EV/Resource metric for the Wingellina nickel project, and market valuations for MLX’s listed equity investments.

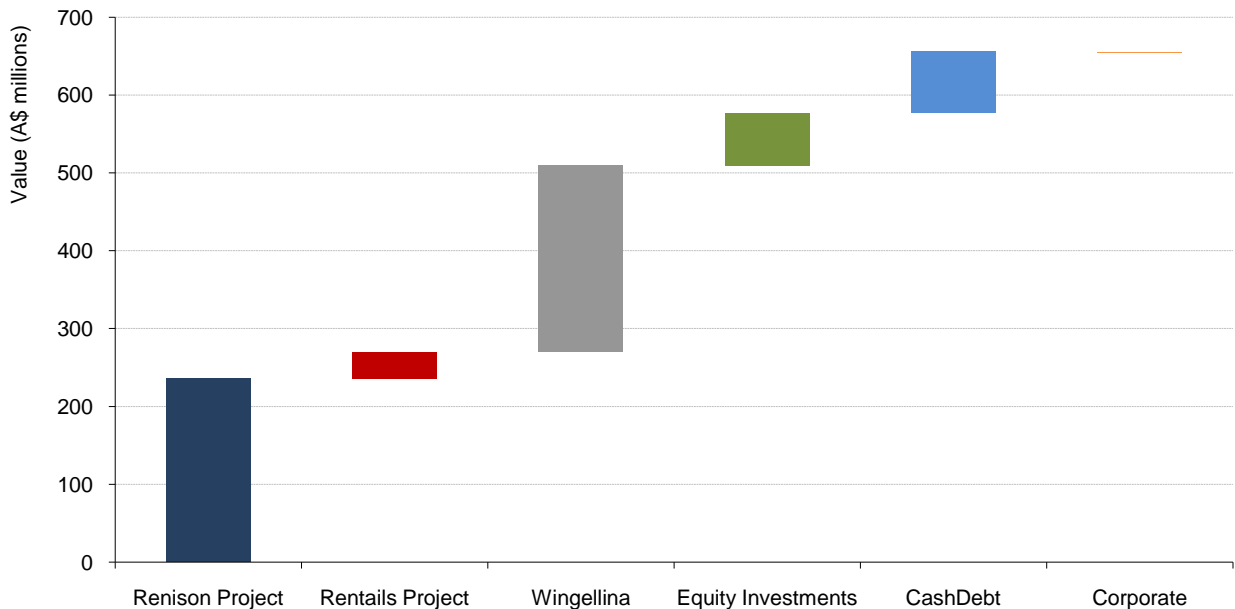
*Our initial price target of \$0.50 represents a 108% premium to current share price.*

**Figure 23: Valuation Summary**

Valuation Summary	A\$m	P/NPV	\$/share
Renison Project 50%	236	0.50	\$0.17
Rentails Project 50%	34	0.50	\$0.02
Wingellina	240	0.20	\$0.18
Equity Investments	67	1.00	\$0.05
Corporate	-16	1.00	-\$0.01
Net cash/(debt)	78	1.00	\$0.06
<b>Total</b>	<b>639</b>		<b>\$0.47</b>
	<b>Price Target</b>		<b>\$0.50</b>
	<b>Current Share Price</b>		<b>\$0.24</b>
	<b>Upside</b>		<b>108%</b>

Source: FSB Research

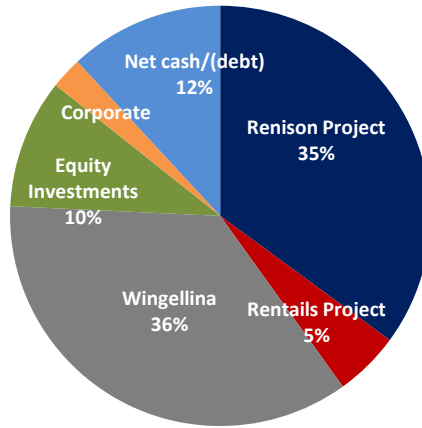
**Figure 24: Cumulative Valuation**



Source: FSB Research.

**Figure 25: Valuation Split**

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Source: FSB Research.

## RECOMMENDATION

- **We initiate on MLX with a BUY recommendation and a price target of A\$0.50, which represents approximately 108% upside to the current share price.**
- We see MLX as a quality investment opportunity that offers multi commodity exposure to base metals across Australia, Mongolia and Madagascar.
- Our PT is derived using a Sum of parts valuation which includes an NPV on MLX's tin assets (~10%), a risked EV/Resource metric for Wingellina and current market pricing for equity valuations (pg 15).

## **BOARD AND KEY MANAGEMENT PERSONNEL**

### **Mr. Peter Cook (Non Executive Chairman)**

- Mr Cook is an experienced corporate director with substantial experience in the board room of a number of exploration and development mining companies. He is a geologist by background and currently serves as a director of Westgold Resources Limited (WGR), Aragon Resources Limited (AAG), Pacific Niugini Limited (PNR) and Kingrose Mining Limited (KRM).

### **Mr. Warren Hallam (Managing Director)**

- Mr Hallam has substantial technical and commercial experience in the resource industry spanning 25 years. On the technical side, he was instrumental with the development and commissioning of processing plants specifically within the gold industry and on the commercial side, he has been involved in a number of strategic investment decisions for MLX and Westgold Resources (WGR) at the board level.

### **Mr. Dean Will (Executive Director)**

- Mr Will has significant experience as a mining engineer and held various senior and executive roles across a number commodities. More recently, Dean was chief mining engineer for Mincor Resources (MCR) where he played a key role in MCR's expansion strategy.

### **Mr. Michael Jefferies (Non Executive Director)**

- Mr Jefferies is an experienced chartered accountant with extensive experience in finance and investment. He currently serves as a director in a number of ASX listed companies including Tower Limited (TWR), Ozgrowth limited (OZG), Clearview Wealth Limited (CVW) and Capral limited (CAA) and is an executive of the Guinness Peat Group.

### **Mr. Sanlin Zhang (Non Executive Director)**

- Mr Zhang is a Vice President of the Jinchuan Group and currently represents the company on the MLX board. Mr Zhang is responsible for International investments and is also the Non-Executive Chairman of Albidon Limited (ALB). Alternatively, Mr Yimin Zhang can represent Jinchuan on the MLX's board in the event Mr Sanlin cannot attend.

## **RISKS**

The primary risks include:

### **Received Price**

- We see the longer-term pricing for Tin and Nickel a risk for MLX. Any substantial decline in the prices of base metals or changes in industry factors such as supply and demand may affect the economic viability of MLX's projects.

### **Development and Funding**

- Future financing may be required by MLX to support potential development plans of its Wingellina project. There can be no assurance that such funding will be available on satisfactory terms or at all.

### **Equity Valuations**

- MLX is exposed to a number of equity investments related to the stock market. Any negative change in valuations may impact on equity investments for MLX and result in MLX trading at a discount to market valuations.

### **Exploration/operational**

- We see this as a risk for MLX. No assurance can be given that the company's exploration plans at Renison will result in additional mine life at its tin project.

### **Key Personnel**

- The directors and senior managers' ability to successfully manage the company's performance and to expand and exploit the opportunities identified in this report will directly affect the success of the MLX. MLX may be adversely affected if any of the directors or senior management leaves MLX.

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