

Gryphon Minerals (GRY)

Emerging West African Gold Play

8 April 2008

Opinion Data

Recommendation	Speculative Buy (initiating coverage)
Risk Rating	High
Current share price	\$0.43
12 month target price (diluted)	\$0.70
Price range - high/low	\$0.80 - \$0.30
Market capitalisation	\$40m

Gryphon Minerals (GRY) is a mineral exploration company, with gold and nickel exploration projects in West Africa and Western Australia.

The Banfora Gold project in Burkina Faso is the company's flagship project. GRY's tenements overlie Birrimian greenstones, which host almost all of the known gold mineralisation in West Africa, including the nearby Morila, Syama and Tongon projects.

The Banfora project has proved attractive to both institutions and corporates and since listing GRY has raised ~\$15m, largely through placements priced at a premium to market, including a placement to Newmont Mining Corporation.

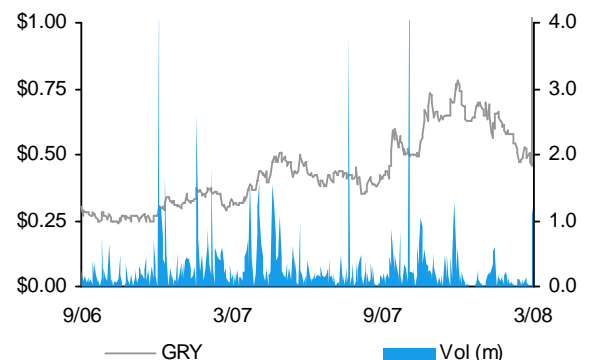
GRY began exploration on the project early in 2006 and has identified several significant targets since then. A maiden resource of 0.4moz was announced in September 2007, the majority of this oxide material at less than 100m depth. With a large scale drilling program currently underway, GRY is targeting a resource of ~1moz by the end of 2008.

Although still at an early stage of development, we have completed an indicative model on the Banfora project. On EV/oz bases it offers good relative upside. At the current spot gold price and FX rate (US\$950/oz and A\$0.93) we would value GRY's key project, Banfora, at \$64m and we would value GRY at \$0.74/share. We note, however, that the project is highly leveraged to the gold price – at our base case US\$675/oz gold price, GRY would be NPV neutral. In the absence of sustained higher gold prices, GRY would need to find higher-grade ounces or continue expanding its resource base. Either of these seem reasonable possibilities.

GRY is an attractive junior gold exploration play, underpinned by good management and a highly experienced exploration team, on landholdings that appear capable of delivering substantial resource growth.



GRY Share Price / Volume



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OVERVIEW

Gryphon Minerals (GRY) floated on the ASX in April 2004 as a mineral exploration company with nickel and gold exploration projects in WA. The IPO raised \$3m at \$0.20/share.

In August 2005, GRY entered into a joint venture over the Banfora Gold project in Burkina Faso in West Africa. This has since become the company's flagship project, with GRY now owning 90% of the project, the balance being held by the Burkina Faso government. The nickel tenements in Western Australia are currently being explored by Minara Resources, under a farm in/joint venture agreement.

Since listing, GRY has raised ~\$15m, primarily through share placements at a premium to market, including a \$2.2m placement to Newmont Mining Corporation (at a 25% premium to the market at the time).

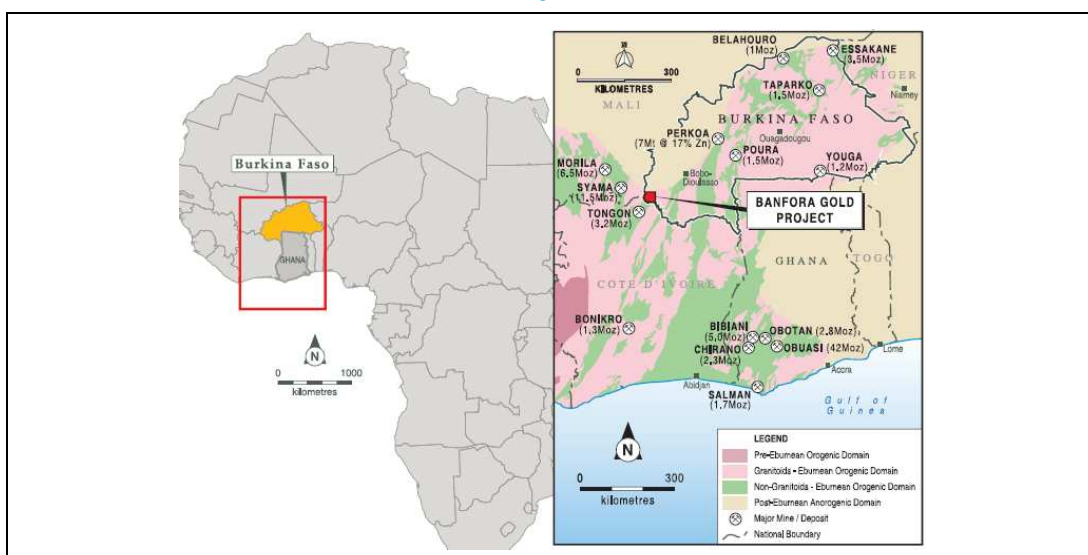
PROJECTS

BANFORA GOLD PROJECT – BURKINA FASO

The Banfora Gold project (located in the south-west of Burkina Faso, in West Africa) is GRY's flagship project. It covers ~1,150km² of contiguous exploration licences overlying a select part of the Birrimian greenstones, which host almost all of the known gold mineralisation in West Africa, including +5moz deposits such as Morila, Syama and Obuasi.

Banfora Gold Project – Burkina Faso

**GRY holds
~1,150km² of
contiguous
exploration
licences**



Source: company reports

GRY earned a 51% stake in Banfora by funding over \$2m in exploration at the project. Previous explorers, including Western Mining Corporation, had undertaken only limited reconnaissance exploration. In November 2007, GRY acquired the remaining interest from the JV partner, Sanembaore Sarl, for total consideration of \$0.3m and 1.3m GRY shares (subject to government approval). Sanembaore Sarl retains a 1% net smelter royalty.

Grid power offers an important economic benefit to any future development decision

The project area is close to the town of Banfora, and is easily accessible by road. The project is 100km from the major city of Bobo Diolasso, via sealed road. Grid power is just 30km from the eastern boundary of the project, offering an important economic benefit to any future development decision. The power lines come from Cote d'Ivoire, en route to the Burkina Faso capital, Ouagadougou.

GRY began exploration on the project early in 2006, with several significant targets now identified. A maiden resource was announced in September 2007, focused on the Nogbele and Fourkoura prospects. The majority of the maiden resource is oxide material at less than 100m depth.

410koz at 2.1g/t, mainly from the Nogbele prospect

Banfora Gold Project Maiden Resource (Sep'07)

Deposit	Category	Tonnage (mt)	Grade Au(g/t)	Contained Oz
Nogbele	Inferred	5.1mt	2.0	332,000
Fourkoura	Inferred	1.0mt	2.5	78,000
Total	Inferred	6.1mt	2.1	410,000

Source: Company reports

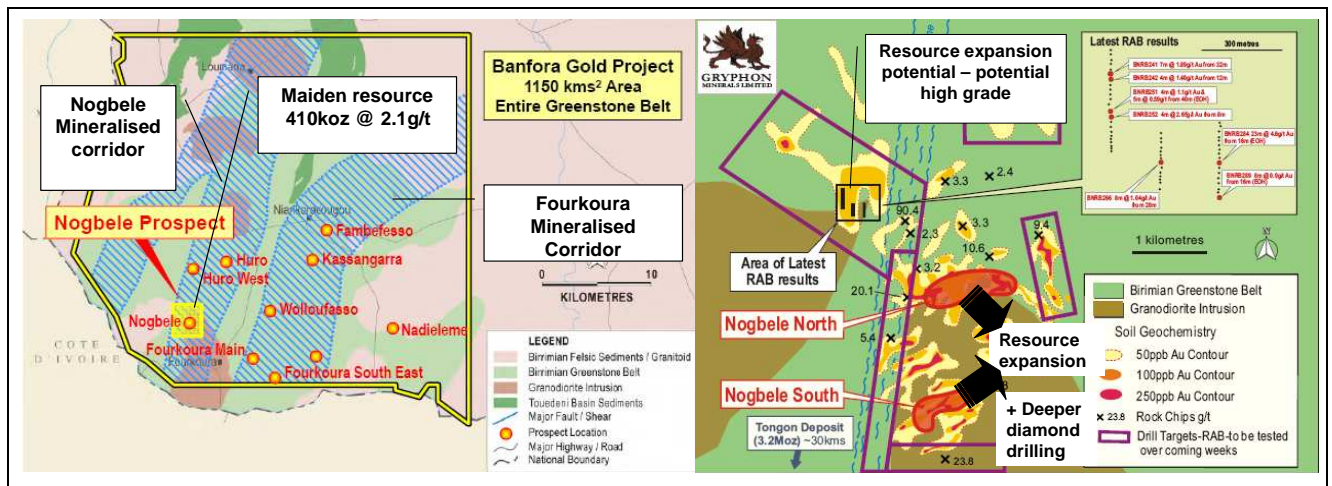
Given the early success that GRY has achieved and the tenor of ongoing exploration results, the Banfora Gold Project has the potential to contain large scale gold mineralisation. Indeed, GRY is targeting a resource of ~1moz by the end of 2008. Most of this growth is expected to come from the Nogbele prospect.

To this end GRY, is currently conducting an extensive drilling program, including 30,000m of RC resource definition drilling, 5,000m of exploration diamond drilling, and 50,000m of RAB drilling targeting further regional targets. In addition, GRY expects to complete ~5,000 regional soil geochemical samples over the next six months.

While the primary goal of the drilling program is to expand the shallow (<100m) oxide resource base, GRY will also be targeting deeper sulphide mineralisation (Morila style) through the diamond drilling program.

Banfora gold Project

Drilling program



Source: Company reports

Encouraging ongoing exploration results

Early results from the RC drill program confirm good mineralisation outside of the existing resource boundaries, including intersections such as 12m @ 8.7g/t, 26m @ 2.7g/t and 28m @ 2.5g/t.

Comparable Projects used in Indicative valuation Analysis

Company	Ticker	MCap	Burkina Faso Project	Capex	Resource	Reserve	Cash Cost	Mine life
High River Gold Mines	HRG.TSX	C\$877m	Taparko - Bouroum	US\$71m	1.37moz @ 2.9g/t	0.85moz @ 3.0g/t	US\$233/oz	7 years
Etruscan Resources	EET.TSX	C\$292m	Youga	US\$70m	0.97moz @ 2.3g/t	0.58moz @ 2.7g/t	US\$317/oz	6.5 years
Orezone Resources	OZN.TSX	C\$556m	Essakane	US\$346m	5.3moz @ 1.5 g/t	2.65moz @ 1.8g/t	US\$356/oz	9 years
Equigold	EQL.ASX	A\$983m	Bonikro (Ivory Coast)	US\$73.7m	1.73moz @ 1.9g/t	0.78moz @ 1.8g/t	US\$287/oz	8 years
Gryphon Minerals	GRY.ASX	A\$40m	Banfora		0.41moz @ 2.1g/t			

Source: Company reports

Banfora Project - Indicative Valuation

Despite GRY still being at an early stage of resource definition, we have completed an indicative model on the Banfora project. The economic parameters have been based on potentially similar-sized operations in the country that have just recently come into production. At the current spot gold price and FX rate (US\$950/oz and A\$0.93) we could value GRY's key project, Banfora, at A\$64m.

This is an unrisked valuation, using the following LOM parameters:

- Treatment of 11.3mt at 2.0g/t and 94% recovery to produce 723koz viz. current resource of 0.41moz at 2.1g/t and targeted resource of 1moz
- 1mtpa throughput, increasing to 1.5mtpa by end of Yr 2
- Operating costs of US\$27/t for an average US\$423/oz
- 3% royalty
- Capex of US\$80m to get to 1.5mtpa; sustaining capital of US\$2m/pa.
- Capex fully depreciated over life of mine, meaning total costs are over US\$700/oz.
- Tax at 25%, after an initial rate of 15%

The operating parameters used above have been determined from looking at the parameters of the following nearby projects:

- Taparko (High River Gold) – started commercial production in September 2007 at a mill rate of 1.0 to 1.5mtpa.
- Youga (Etruscan) – First ore in February 2007 at a mill rate of 1.0mtpa.
- Essakane (Ore Zone) – DFS completed late 2007. Planned 5.4mtpa mill rate.

EZ/oz versus Comparable Projects in the Region

While GRY currently appears reasonably priced relative to producers nearby, it looks inexpensive should the current exploration program deliver the targeted 1moz of resources

Company	Resources (Moz)	Grade (g/t)	EV (\$m)	EV/oz (\$/oz)
High River	1.3	1.5	1,055	836
(Au Eq oz include silver resources)	(2.8 Au Eq)			(377 Au Eq)
Etruscan	3.3	2.0	379	114
Orezone	7.3	1.5	507	69
Equigold	3.4	1.3	1,076	317
Gryphon (current)	0.4	2.1	35	88
Gryphon (by year end?)	1.0	-	35	35

Source: Company reports

Banfora Project - Indicative Investment Outlook

At current spot prices, and applying the indicative parameters detailed above, the Banfora Project alone more than justifies the current GRY share price, albeit on an unrisks basis.

- At the **current spot gold price** and FX rate (US\$950/oz and A\$0.93) we could potentially value GRY's key project, Banfora, at A\$64m. We would therefore value GRY at \$0.74/share, including cash, in-the-money options and exploration value. At peak production this translates to project level earnings as follows:
 - EBITDA of US\$43m/pa
 - EBIT of US\$22m/pa
 - EBI of US\$17m/pa
- The Nogbele prospect, which currently makes up the bulk of the Banfora resource base, is reasonably low-grade (the other similar projects at Youga and Taparko have grades 35-50% higher than Banfora). As a result, total costs are high and the project is currently sensitive to the assumed long-term gold price.
- At our base-case **long-term gold price of US\$675/oz** for instance, we would value Banfora, at -A\$9.8m and would value GRY at \$0.01/share. At peak production this would translate to project level earnings as follows:
 - EBITDA of US\$23m/pa
 - EBIT of US\$6m/pa
 - EBI of US\$5m/pa

Highly sensitive to long-term gold price

Barring an extended period of higher gold prices, GRY will need to either find higher-grade ounces or, longer term, extend its mine life through expanding its resource base. Either of these would seem reasonable possibilities, given (a) the tenor of the most recent high-grade drilling from the current drilling program and (b) the suite of over fifty regional exploration targets that GRY is following up on.

GRY needs a gold price of US\$851/oz at the current FX for Banfora for the NPV to match GRY's current market cap of ~\$40m.

GRY Indicative NPV Sensitivity to the Gold Price and FX Rate

	US\$:A\$	\$0.70	\$0.75	\$0.80	\$0.85	\$0.90	\$0.95	\$1.00
US\$/oz	600	-0.67	-0.62	-0.58	-0.55	-0.52	-0.49	-0.46
	800	0.25	0.25	0.25	0.25	0.25	0.25	0.24
	900	0.69	0.66	0.63	0.61	0.59	0.57	0.55
	1000	1.13	1.07	1.01	0.97	0.93	0.89	0.86
	1200	2.00	1.88	1.78	1.69	1.60	1.53	1.47

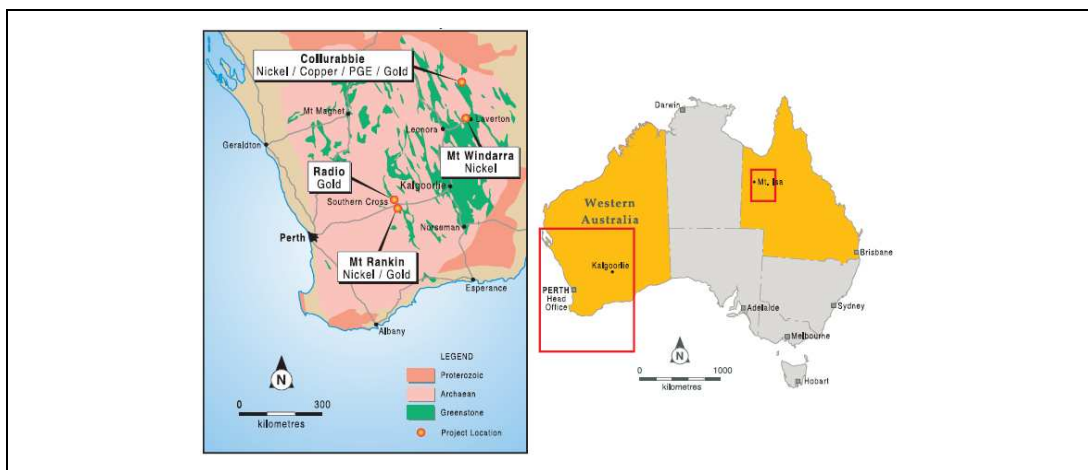
Source: Austock Securities forecasts

AUSTRALIAN PROJECTS

In addition to its West African project, GRY has four Australian projects:

- Collurabbie & Mount Rankin (Minara JV – Minara earning 70%) Nickel
- Mount Windarra (GRY 100%) Nickel
- Radio Gold Project (GRY 100%) Gold
- Mt Isa Project (GRY 90%) Uranium

GRY Australian projects



Source: Company Reports

Collurabbie & Mount Rankin (Minara JV – Minara earning 70%)

GRY has entered farm-in and JV agreements with Minara, primarily to explore for nickel sulphide mineralisation on GRY's Collurabbie (270km²) and Mount Rankin (400km²) projects in Western Australia.

JV/Farm-in with Minara

Minara is earning a 70% interest in nickel and base metal mineralisation, and a 60% interest in all other commodities through funding \$5m in exploration over 4 years (minimum spend of \$1.5m in the first 12 months). MRE does not earn any equity until the minimum \$5m is spent. GRY is the manager and operator until a decision to mine is made.

Mount Windarra Project (GRY 100%)

A nickel sulphide prospect in close proximity to Poseidon's 1960's Mount Windarra nickel discovery and mining operation.

Radio Project (GRY 90%)

The Radio project (500km²) is in the Bullfinch Region of Southern Cross, Western Australia. GRY owns the majority of the project area 100%, including the historic Radio gold mine, which produced over 71,000oz at 38.5g/t.

Mount Isa Project (GRY 90%)

The Cat Creek and Hamilton River projects (660km²) contain significant untested radiometric uranium anomalies that GRY believes are highly prospective for channel and calcrete style uranium mineralisation.

Divestment of non-core assets on the cards

GRY does not believe that the market is applying any value to these Australian projects and so it is looking at some means of divesting the non-nickel projects (though joint venture, direct sale, spin-off, etc) as a means of realising some value for shareholders.

CORPORATE

The company had \$5.2m cash at 31 December 2007, with budgeted exploration expenditure of ~\$1.8m in the March quarter 2008.

The current exploration program is expected to consume \$5m, indicating that GRY will need to raise additional funds.

BOARD & MANAGEMENT

Board of Directors

Board of Directors

Mel Ashton	• Non Executive Chairman
Steve Parsons	• Managing Director
Kent Hunter	• Non Executive Director
Didier Murcia	• Non Executive Director

Key Management

Management Executives

Brett Dunnachie	• Chief Financial Officer & Company Secretary
Michael Fox	• Exploration Manager (West Africa)
Shane Hibbird	• Exploration Manager (Australia)
Hamish Halliday	• Management Consultant

REGISTER

Major Shareholders

GRY has a very strong register for a company of its size

Management	15%
Newmont Mining Corp	8%
Genesis Fund	8%
Mariner Financial Fund	5%
Macquarie Bank	5%
RMB Resources	3%
Contango Fund	3%
Phoenix Gold Fund	3%
Standard Bank	3%

Top 40 shareholders ~70%

Gryphon Minerals

NFPOS
93 m

Contributing + Options

18 m
Price
\$0.45
Market Cap
\$42 m

Incl Contrib's + Op's

\$50 m
Date:
4-Apr-08
Model Update
4-Apr-08

INDICATIVE SPOT SCENARIO (FX =0.93, AU =US\$950/oz)

PROFIT & LOSS (A\$m)

Y/E 30 June	FY'08F	FY'09F	FY'10F	FY'11F	FY'12F
Sales Revenue	0.0	0.0	9.3	58.7	92.6
Other Revenue	0.0	0.0	0.0	0.0	0.0
Operating Costs	0.0	0.0	4.8	29.5	43.5
Depreciation	0.1	0.0	2.2	14.0	22.1
Royalties	0.0	0.0	0.3	1.8	2.8
Exploration, R & D	0.1	0.0	0.0	0.0	0.0
Other Costs	3.8	4.0	4.0	10.0	10.0
EBIT	-3.8	-4.0	-2.1	3.4	14.2
Interest Expense	0.4	0.7	2.0	5.6	8.5
Interest earned	0.3	0.9	5.0	5.4	5.5
Prof Pre Tax & Abnormals	-3.8	-4.0	-2.1	3.4	14.2
Tax Excluding Abnormals	0.0	0.0	0.0	0.6	3.3
Operating Profit after Tax	-3.8	-4.0	-2.1	2.8	10.8
Less Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (pre-Abs)	-3.8	-4.0	-2.1	2.8	10.8
Plus Abnormals - Pre Tax	0.0	0.0	0.0	0.0	0.0
Less Tax on Abnormals	0.0	0.0	0.0	0.0	0.0
Reported Profit	-3.8	-4.0	-2.1	2.8	10.8

BALANCE SHEET (A\$m)

Y/E 30 June	FY'08F	FY'09F	FY'10F	FY'11F	FY'12F
Current Assets					
Cash and Bullion	0.3	0.3	0.3	0.3	0.3
Other	0.3	0.3	0.3	0.3	0.3
Non-Current Assets					
Investments	0.0	0.0	0.0	0.0	0.0
Fixed Assets	-4.7	16.4	105.6	104.5	84.6
Other	6.9	6.9	6.9	6.9	6.9
Current Liabilities					
Borrowings	0.0	0.0	0.0	0.0	0.0
Creditors	0.7	0.7	0.7	0.7	0.7
Other	0.1	0.1	0.1	0.1	0.1
Non-Current Liabilities					
Borrowings	10.0	10.0	110.0	105.0	90.0
Other	0.0	0.0	0.0	0.0	0.0
SHAREHOLDERS FUNDS	9.3	108.2	104.4	110.6	124.4

CASHFLOW STATEMENT (A\$m)

Y/E 30 June	FY'08F	FY'09F	FY'10F	FY'11F	FY'12F
Cash Flows From Operating Activities					
Receipts From Customers	0.0	0.0	9.3	58.7	92.6
Payments To Suppliers	0.0	0.0	-4.8	-29.5	-43.5
Other	-3.7	-4.2	-7.3	-12.2	-13.1
Cash Flows From Investing Activities					
Acq. of Property, Plant and E	5.0	-21.1	-91.4	-12.9	-2.2
Exploration Expenditure	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Cash Flows From Financing Activities					
Proceeds From Borrowings	10.0	0.0	100.0	0.0	0.0
Repayment of Borrowings	0.0	0.0	0.0	-5.0	-15.0
Other	1.2	103.1	1.3	3.1	0.0
Net Increase in Cash Held	12.5	77.8	7.0	2.2	18.8
Cash At Beginning of Year	5.1	17.5	95.3	102.3	104.6
Cash At End of Year	17.5	95.3	102.3	104.6	123.4

PRICE ASSUMPTIONS

Y/E 30 June		FY'09F	FY'10F	FY'11F	FY'12F
Exchange Rate	A\$/US\$	0.93	0.93	0.93	0.93
Gold	US\$/oz	950	950	950	950
Gold	A\$/oz	1,022	1,022	1,022	1,022

KEY RATIOS

Y/E 30 June		FY'08F	FY'09F	FY'10F	FY'11F	FY'12F
EBITDA	\$m	-3.8	-3.8	3.2	16.6	29.9
EBITDA Margin	%	na	na	34%	28%	32%
EBIT Margin	%	na	na	na	6%	15%
NPAT Margin	%	na	na	na	na	na
ROE	%	na	na	na	na	na
ROA	%	14%	4%	6%	17%	30%
NTA per share	\$	0.10	0.71	0.66	0.70	0.79
Eff Tax Rate	%	na	na	na	64%	258%
Interest Cover	x	-9.6	-4.5	0.0	1.6	2.7
Net Gearing	%	104%	9%	105%	95%	72%
Net Debt / Net Debt plus Equity		51%	8%	51%	49%	42%

VALUATION PARAMETERS

Y/E 30 June		FY'08F	FY'09F	FY'10F	FY'11F	FY'12F
EPS	c	(3.3)	(2.4)	0.6	1.6	4.9
P/E	x	na	na	>50	27.8	9.1
Enterprise Value	\$m	34	(16)	79	72	38
EV / Sales	x	na	na	8.5	1.2	0.4
EV / EBITDA	x	na	4.3	24.8	4.3	1.3
EV / EBIT	x	86.8	(17.6)	10.9	3.7	1.4
Price / NTA	x	4.5	0.6	0.7	0.6	0.6
DPS	c	-	-	-	-	-
Dividend Yield	%	-	-	-	-	-
Franking	%	-	-	-	-	-
CFPS	\$	(0.0)	(0.0)	(0.0)	0.2	0.4
P / CFPS	x	na	na	na	2.5	1.2
NFPOS	m	77.6	93.2	153.5	158.2	158.2

DCF VALUATION & SENSITIVITY

	A\$m			
BANFORA	64		Long Term Gold US\$/oz	950
SPARE	0		Long Term A\$/US\$	0.93
Hedge Book	0			
Net Cash	5			
Other	7			
TOTAL NPV	76			
TOTAL NPV (A\$ share)	0.74			

ATTRIBUTABLE PRODUCTION PROFILE

Y/E 30 June		FY'08F	FY'09F	FY'10F	FY'11F	FY'12F
PROJECT/DIVISION						
BANFORA	100%	0.0	0.0	9.1	57.4	90.7
TOTAL		0.0	0.0	9.1	57.4	90.7

INVESTMENT ANALYSIS

Y/E 30 June		FY'08F	FY'09F	FY'10F	FY'11F	FY'12F
Cash Operating Costs	A\$/oz	606	624	496	477	447
Gold Price Received	A\$/oz	933	1,022	1,022	1,022	1,022
Reserves/Resources			Ounces	Mine	Market	
			(Millions)	Life	Cap/oz	
				(Years)	(A\$/oz)	
Published Reserves			0.0	0.0	0	
Published Resources			0.8	8.8	50	
Estimate			0.7	7.6	58	

BOARD

Mel Ashton (Non-Exec Chairman) Steve Parsons (Managing Director)	Kent Hunter (Non-Exec Director) Didier Murcia (Non-Exec Director)
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Directory

Equities Research Team

Melbourne

John Burgess	613 8601 2051	Head of Research, Consumer Services
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Heath Andrews	613 8601 2644	Analyst
Jason Brown	613 8601 2071	Infrastructure Analyst
John Buonaccorsi	613 8601 2661	Diversified Financial Services Analyst
Andrew Chambers	613 8601 2605	Infrastructure Analyst
Andrew Cleeland	613 8601 2065	Quantitative Data Analyst
Jon Fernie	613 8601 2618	Assistant Analyst
David Grossman	613 8601 2616	Analyst
Thomas Hodson	613 8601 2628	Property Analyst
Warren Jeffries	613 8601 2073	Emerging Companies
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Simon Oaten	613 8601 2671	Oil & Gas Analyst
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Rohan Sundram	612 9233 9638	Analyst

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Greg Burns	613 8601 2626	Head of Institutional Sales
Lawry Bugeja	613 8601 2635	Institutional Research Sales
Peter Hollick	613 8601 2011	Institutional Research Sales
Stuart Low	613 8601 2022	Dealers Assistant
Sandy Milne	613 8601 2081	Institutional Research Sales
Enzo Salvatore	613 8601 2014	Institutional Research Sales
Tony Smith	613 8601 2041	Institutional Research Sales
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Marshall Biggins	613 8601 2047	Options Strategist
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Alan Crute	613 8601 2621	Senior Client Advisor
Peter Cuthbertson	613 8601 2096	Client Advisor
Nick Fitzsimmons	613 8601 2029	Client Advisor
Kate Hanrahan	613 8601 2058	Client Advisor
Michael Heffernan	613 8601 2053	Senior Client Advisor
Krish Iyra	613 8601 2649	Client Advisor
Peter King	613 8601 2002	Client Advisor
Mark Leslie	613 8601 2076	Client Advisor
Peter Mason	613 8601 2015	Client Advisor
Daniel McFarlane	613 8601 2639	Client Advisor
Simon Taylor	613 8601 2069	Client Advisor
Patrick Trindade	617 3361 3302	Client Advisor
Anthony Zaita	613 8601 2084	Client Advisor

Sydney

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Josh Graham	612 9233 9645	Client Advisor - Options
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Ian Schlipalius	612 9233 9621	Senior Client Advisor
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Recommendation Criteria

Investment View

Austock Securities Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Strong Buy	Buy	Hold	Lighten	Sell
25% +	25% - 10%	10% - (5%)	(5%) - (15%)	(15%) +

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

Austock Securities Limited has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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