

ASX: MGT

Equity Research

30th January 2023

SPECULATIVE BUY Share Price \$0.48 \$2.90 Valuation **Price Target** \$4.50 52-Week Range \$0.455 - \$2.150 MGT Shares Outstanding 75.84m Listed Options (\$2.50, 20 May 2023) 7.27m Unlisted Options (\$2.265, 17 May 2022) 0.08m Unlisted Options (\$1.95, 27 Jun 2025) 0.14m Unlisted Options (various, various) 2 23m Unlisted Options (\$2.03, 14 Oct 2025) 0.29m Unlisted Options (\$1.39, 1 Dec 2025) 1.05m Unlisted Options (\$0.915, 15 Dec 2025) 0.60m STI Performance Rights 0.40m LTI Incentive Options (\$1.34 ex. price) 0.38m Sign-on Rights (expiry 30 Jun 2023) 0.13m Sign-on Rights (expiry 30 Jun 2024) 0.13m Market Capitalisation \$36.4m Cash (30 Sep 2022) \$12.7m Enterprise Value \$23.7m Substantial Shareholders National Nominees Ltd 9.69% 2.70% Citicorp Nominees Pty Ltd Mr Kun Liu 1.42% Mr Siat Yoon Chin 1 36% 1.30% Mr Mark Eames Board & Management: Mark Eames Chairman Peter Schubert Non-Executive Director Jim McKerlie Non-Executive Director Paul White Non-Executive Director Simon Wandke Non-Executive Director Tim Dobson Chief Executive Officer Chief Financial Officer & Co. Sec. lan Kirkham



Magnetite Mines Limited (ASX: MGT) is focused on the development of magnetite iron ore resources in the highly prospective Braemar iron region of South Australia. The Company has a total mineral resource of 5.7 billion tonnes of iron ore including 473 million tonnes of Probable Ore Reserves located 240km from Adelaide – 100% owned by Magnetite Mines. Within its tenements, the flagship Razorback Iron Ore Project is the current focus. In 2021, a PFS focused on just 8% of that resource.

Magnetite Mines Limited

Iron Ore to Match the Green Economy Agenda

Massive Mineral Resource: the Razorback iron ore magnetite project combines a globally significant mineral resource with enviable characteristics: 3 billion tonnes with a Davis Tube Recovery (DTR) of 15.8%, a very low strip ratio of 0.13 (with no pre-strip) and low deleterious elements (silica, alumina and phosphorus). With the addition of Ironback Hill and Muster Dam, the mineral resource amounts to 5.7 billion tonnes.

Competitive Advantages: the results of our benchmarking indicate that the Razorback project benefits from a reasonable capital intensity with the longest initial mine life among its peers. Operating costs are within the average and more importantly the profitability of the project is one of the best. From a steel manufacturing perspective, MGT's magnetite is a high-grade product with grade in excess of 67% Fe and low impurities that is highly sought after by steelmakers to increase productivity, provide efficiencies & reduce emissions. **Development Options:** the large mineral resource provides options in terms of processing plant throughput. Further to the PFS results released in July 2021 with 12.8 Mtpa to 15.5 Mtpa throughput (or 1.9 Mtpa to 2.7 Mtpa concentrate production), the Expansion Study released in Mar 2022 provided the results of staged project development scenarios from 15.5 Mtpa to 46.5 Mtpa (or 3 to 7 Mtpa concentrate production). MGT is looking to increase and optimise the initial production, with a minimum 5Mtpa capacity, to enhance project economics via economies of scale, while taking advantage of the 5.7 billion tonne mineral resource base.

SA Government Support: the Razorback project fits well with the government's vision of becoming a leading global supplier of quality magnetite products for steelmaking.

Green Steel: as the expectation of cleaner, greener steel production becomes further embedded in the global narrative, MGT magnetite products offer a viable alternative to Direct Shipping Ores (DSO), for which most of the high-grade deposits are now significantly depleted.

Strategic Investors: a number of parties have been given access to a data room to undertake their due diligence of the Razorback project. One can expect some agreement with one or more of them during 2023.

Razorback Financial Modelling: We modelled the development and operation of the project in line with the PFS (2.7 Mtpa) and Expansion Study (stages increases of production from 3 to 7 Mtpa), then used different iron ore prices. We also added an Upside scenario with another expansion to 10 Mtpa. **Razorback Valuation:** based on various iron ore prices:

Iron Ore (62%) Price *	NPV 8%	50% Interest	30% Risked NPV	IRR
US\$100/t	\$1,875m	\$938m	\$281m	19%
US\$110/t	\$2,429m	\$1,215m	\$364m	22%
US\$130/t	\$3,537m	\$1,768m	\$530m	28%
*	11 AT 50/			

* US\$25/t premium to add for the 67.5% magnetite concentrate produced

Funding: to assist the funding of A\$1,986 million development capital expenditure (initial 3 Mtpa and expansion to 7 Mtpa in year 3), we assumed that MGT will sell 50% of the Razorback project to one or more off-takers with proceeds of \$100 million.

Key Share Price Catalyst: is the announcement of one or more agreements with off-takers or project partners to assist in project development and/or funding, which will significantly de-risk the project and improve MGT's value.

MGT Valuation: assuming an equity capital raising of A\$100 million (100 million shares @ \$1.00) in FY2024 to complement an initial debt of A\$200m raised in the same year, we derived a valuation pre-construction of \$629 million or \$2.90 per share for MGT. Expansion will be financed by cash flow and additional debt. Once in operation, the project should reach its full valuation resulting in a price target of \$4.50.

Magnetite Mines Ltd (ASX: MGT) Financial Summary Base Case: Expansion Study (Single-Step Expansion from 3 Mtpa to 7 Mtpa in year 3)

Key metrics		
Market Information	Unit	Value
Number of Issued Shares	million	75.84
Listed Options (@ \$2.50, expiry 20 May 2023)	million	7.27
Unlisted Options (@\$2.265, expiry 17 Mar 2024)	million	0.08
Unlisted Options (@\$1.95, expiry 27 Jun 2025)	million	0.14
Unlisted Options various	million	2.23
Unlisted Options (@ \$2.03, expiry 14 Oct 2025)	million	0.29
Unlisted Options (@ \$1.39, expiry 1 Dec 2025)	million	1.05
Unlisted Options (@ \$0.915, expiry 15 Dec 2025)	million	0.60
STI Performance Rights (expiry 30 Sep 2023)	million	0.40
LTI Incentive Options (@ \$1.34, expiry 1 Dec 2028)	million	0.38
Sign-On Rights (expiry 30 Jun 2023)	million	0.13
Sign-On Rights (expiry 30 Jun 2024)	million	0.13
Fully Diluted	million	88.52
Share Price	A\$	0.480
12 month High-Low	A\$	0.455 - 2.150
Market Capitalisation	A\$m	36.4
Cash (30 Sep 2022)	A\$m	12.7
Debt (30 Sep 2022)	A\$m	0.0
Entreprise Value	A\$m	23.7
Financing Assumptions	Unit	Value
New Equity DFS (40m shares @ \$0.50 in 2023)	A\$m	20.0
New Equity Construction (100m shares @\$1.00 in 2024)	A\$m	100.0
Exercise of Options/Rights	A\$m	0.0
Number of Issued Shares Post Phase 1 Financing	million	216.5
New Debt (\$200m in FY2024 + \$550m in FY2027, 6% inter	est rate, repay	ments of \$100m
from 2028 to 2033 with final repayment of \$150m in 203	4	

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Mineral	Mineral Resources		Mass Rec	Fe%	SiO2 %	Al2O3 %
Razorback (11% Mass Rec cutoff)						
	Indicated	1,500	15.6%	18.5	47.9	8
	Inferred	1,500	16.0%	18.0	48.3	8.2
	Total	3,000	15.8%	18.2	48.1	8.1
Ironback	k Hill (no cutoff)					
	Inferred		-	23.2	44.4	7.2
Muster D	0am (10% eDTR cutoff)					
	Inferred	1,550	15.2%	18.7	49.6	8.8
Total	Indicated + Inferred	5,740	-	19.4	47.7	8.1
Razorback Ore Reserves		Mt	Mass Rec	Fe%	Concentro	ite (Mdmt)
	Probable	472.7	14.5%	68.0		68.5
Expansio	on Study					
	Mining Inventory	1,365.2	14.4%	67.5		196.6

Razorback Valuation	Iron Ore Price	NPV @ 8%	50% Int.	30% Risked	IRR
Low Case	US\$100/t	\$1,875m	\$938m	\$281m	19%
Base Case	US\$110/t	\$2,429m	\$1,215m	\$364m	22%
High Case	US\$130/t	\$3,537m	\$1,768m	\$530m	28%

MGT Sum of the Parts Valuation	A\$m	Per Share
Razorback Project (50% interest, 30% risked NPV)	364.4	\$1.68
Upside (10 Mtpa, 50% interest, 10% risked NPV)	51.8	\$0.24
Exploration Upside / Other projects (100%)	7.0	\$0.03
Cash (30 Sep 2022)	12.7	\$0.06
New Equity DFS (40m shares @ \$0.50 in 2023)	20.0	\$0.09
Proceeds from 50% project interest sale	100.0	\$0.46
New Equity Construction (100m shares @\$1.00 in 2024)	100.0	\$0.46
Corporate Costs	(27.2)	(\$0.13)
Base Case Valuation	628.6	\$2.90

Source: Evolution Capital estimates

		Fir	nancial Ye	ear ending	30 June
Profit & Loss (A\$m)	2022A	2023F	2024F	2025F	2026
Revenue	0.2	0.0	0.0	212.2	212.2
Operating Costs	(1.4)	(2.2)	(11.2)	(112.3)	(114.5)
Royalties	0.0	0.0	0.0	(10.2)	(10.2)
Overhead Costs	(1.9)	(2.0)	(2.0)	(2.1)	(2.1)
Other Income/Costs	(0.3)	0.0	0.0	0.0	0.0
EBITDA	(3.4)	(4.1)	(13.3)	87.6	85.4
Depreciation	(0.1)	0.0	(0.9)	(12.0)	(12.0)
Net Interest	(0,1)	(0.1)	0.0	(12.0)	(12.0)
Tax and Other	0.0	0.0	0.0	(50.2)	(45.3)
Profit	(3.7)	(4.2)	(14.1)	13.4	16.0
Cash Flow (A\$m)	2022A	2023F	2024F	2025F	2026
Net Profit	(3.7)	(4.2)	(14.1)	13.4	16.0
+/- Adjustments	0.0	0.1	0.9	24.0	24.0
+/- Working Capital	2.8	(2.9)	1.1	(31.1)	0.3
+/- Other	(1.5)	(0.4)	0.0	(10.6)	0.0
Cash Flow from Operations	(2.3)	(7.5)	(12.2)	(4.3)	40.4
Net Capital Expenditure	(10.0)	0.0	(335.5)	0.0	0.0
Cash Flow from Investing	(10.0)	0.0	(335.5)	0.0	0.0
Net proceeds from Debt	(0.1)	(2.1)	200.0	(12.0)	(12.0)
Changes in Share Capital	16.1	20.0	100.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Casthlow	(1.0)	98.8	(6.0)	0.0	0.0
Cash Flow from Financing	15.1	116.7	294.0	(12.0)	(12.0
Net Cash Change	2.8	109.3	(53.7)	(16.3)	28.4
Balance Sheet (A\$m)	2022A	2023F	2024F	2025F	2026
Cash	19.3	128.6	75.0	58.6	87.0
Other Current Assets	0.7	0.2	0.9	63.4	63.6
Total Current Assets	20.1	128.8	75.9	122.1	150.6
Property, Plant & Equipment	0.1	0.1	334.8	322.7	310.7
Exploration, Evaluation & Dev.	25.2	25.2	25.2	25.2	25.2
Non-Current Assets	0.3	0.3	0.3	0.3	0.3
Total Non-Current Assets	25.7	25.7	360.3	348.3	336.3
Total Assets	45.8	154.5	436.2	470.4	486.9
Equity	89.6	208.4	302.4	302.4	302.4
Reserves	12.1	12.1	12.1	12.1	12.1
Retained Earnings	(62.3)	(66.5)	(80.6)	(67.2)	(51.2
Total Equity	39.3	153.9	233.8	247.2	263.2
Current Debt	0.0	0.0	0.0	0.0	0.0
Account Payables	3.9	0.4	2.3	23.1	23.5
Other Liabilities	0.4	0.0	0.0	0.0	0.0
Total Current liabilities	43	0.0	23	23.1	23.4
	4.5	0.4	2.5	0.1	20.
Nep ourrant Debt	0.1	0.1	200.0	200.0	200.0
	2.0	0.0	200.0	200.0	200.0
	2.1	0.1	200.1	200.1	200.
Iotal Liabilities	6.4	0.6	202.4	223.2	223.7
Total Equity + Liabilities	45.8	154.5	436.2	470.4	486.9
Profitability indicators	2022A	2023F	2024F	2025F	2026
EBITDA margin	-	0.0%	0.0%	41.3%	40.2%
Liquidity	2022A	2023F	2024F	2025F	2026
Quick Ratio	0.2	0.0	0.0	2.3	23
Current Ratio	0.2	0.0	0.0 ∩⊿	2.5	2.0
	20224	20235	2024	20255	2024
Fauity ratio	2022A	1 2	2J241 0 7	0.4	~~~~
	2.0	1.3	0.7	0.0	0.0
Debi / Assels	0.0	0.0	0.5	0.4	U.4
	~ ~	~ ~	~ ~	~ ~	
Debt / EBITDA	0.0	0.0	0.0	2.3	2.3

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All dollar amounts are in Australian dollars unless otherwise specified.

1. MGT Valuation

Razoback Project Valuation

We modelled the development and operation of the project in line with the PFS (2.7 Mtpa) and Expansion Study results (3 to 7 Mtpa product capacity in a single step expansion, i.e. Stage 2 and Stage 3 are combined) results, then used different iron ore prices. We also added an Upside scenario with an expansion to 10 Mtpa product capacity in year 6 based on MGT's announcement regarding to upscaling the project (16 Jan 2023).

To reduce the capital expenditure, we assumed that 50% of the project is sold by MGT to one or more future customers. The proceeds from this sale are assumed to be \$100 million to be assigned to project development.

We also assign a risk factor of 30% placing the project valuation at the time of the DFS (Definitive Feasibility Study) results announcement (i.e. about 12 month from the announcement of the optimisation study expected in the first quarter of 2023.

Table 1.1 summarise the Razorback project NPV valuation using different iron ore price assumptions.

Table 1.1 – Razorback Project Valuation

Iron Ore Price (62% Fe)*	NPV @ 8%	50% Interest	Risk Factor	Risked NPV	IRR
US\$/t	A\$m	A\$m	%	A\$m	%
\$100/t	\$1,875	\$938	30%	\$281	19%
\$110/t (base case)	\$2,429	\$1,215	30%	\$364	22%
\$130/t	\$3,537	\$1,768	30%	\$530	28%

* MGT magnetite product is sold with a US\$25/t premium for 67.5% Fe

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The magnetite concentrates at 67.5% Fe sold by MGT will attract an assumed of premium US\$25/t above the 62% Fe iron ore benchmark price.

Our base case NPV (pre-production in 2024) at an iron ore price US\$110/t is 1.1% lower than Magnetite Mines' base case NPV of A\$2,455 million. The IRR is slightly off, 22% versus 27%. We note also that our financial modelling and in particular our operating cost assumptions are in line with peers (see section 3. Project and Company Benchmarking – Operating Costs).

Razorback Project Financing

To finance the significant capital expenditure to develop the Razorback project and awaiting announcements from the company regarding agreements with third parties, we have made the following assumptions:

- MGT to sell a 50% interest in the project to one or more off-takers
- Sale of proceeds of the 50% interest sale of \$100 million
- A\$20 million equity capital raising in FY2023 (40 million shares at \$0.50)
 - A\$100 million equity capital raising in FY2024 (100 million shares at \$1.00)
- A\$200 million initial debt package in FY2024
- Capital expenditure of A\$335.5 million representing 50% of the first stage development capital

To complement the \$12 million cash balance at the end of the September 2022 quarter, we assumed a capital raising of \$20 million (40 million shares at \$0.50) to fund the Definitive Feasibility Study. To assist the funding of the project construction, we assumed a \$100 million equity capital raising (100 million shares at \$1.00).

MGT Sum of the Parts Valuation

Table 1.2 summarises the sum of the parts valuation for Magnetite Mines. We used a risk factor of 30% considering that the project is post-DFS (Definitive Feasibility Study) and pre-construction.

	Table 1.2 -	MGT Sur	m of the Pa	rts Valuation
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Magnetite Mines Ltd (ASX: MGT)	A\$m	Per Share
Razorback Iron Ore Project - Single-Step Expansion 3 to 7 Mtpa	\$364.4	\$1.68
Upside – additional expansion to 10 Mtpa in year 6	φ30 4 .4	φ1.00
(10 Mtpa, 50% MGT, 10% risked NPV)	\$51.8	\$0.24
Exploration Upside	\$7.0	\$0.03
Cash	\$12.7	\$0.09
New equity DFS (40 m shares @ \$0.50 in FY2023)	\$20.0	\$0.54
Proceeds from 50% interest sale	\$100.0	\$0.46
New equity Construction (100 m shares @ \$1.00 in FY2024)	\$100.0	\$0.46
Corporate costs	(\$27.2)	(\$0.13)
Base Case Valuation	\$628.6	\$2.90

Source: Evolution Capital estimates

2. Magnetite Mines' Strategy

MGT's development approach for Razorback is a staged approach producing an attractive high-grade concentrate and balancing the minimum amount of capital with the requirement to deliver an economic and robust pathway to first ore, using existing infrastructure to reduce upfront capital costs. Razorback's large resources support a scalable project with substantial expansion potential. Connection to the Southeast Australian electricity grid allows access to low-cost power with a progressively renewable supply mix and decreasing emissions profile.

The current focus of the company is on optimisation studies with the key objectives as follows:

- Increase and optimise Stage 1 production, with a minimum 5Mtpa capacity, to enhance project economics via economies of scale, while taking advantage of the 5.7 billion tonne mineral resource base;
- Increase project attractiveness to potential iron and steel industry partners and customers, institutional investors, and project financiers;
- Access potential to re-estimate Ore Reserves as a direct result of expanded production scale; and
- Improve ESG credentials through enhanced concentrate specifications that support downstream iron and steelmaking decarbonisation, and potential electrification of major equipment supported by larger-scale development.

This forecast demand for high-grade concentrates, along with associated pricing premiums, is now facilitating the economic development of the Razorback Iron Ore Project. MGT is assessing both the expected pricing premiums and the decarbonisation benefits that result from the use of Razorback concentrates to produce steel. At this time, the valuation uses a fixed US\$25/t high-grade premium assumption. There is considerable upside with premium increasing over the life of the project as the steel market greenifies.

It is also making sure the Project meets both the economic and Environmental, Social and Governance (ESG) criteria demanded by the market and necessary to attract investment.

3. **Project and Company Benchmarking**

Mineral Resources

Table 3.1 summarises the mineral resources and Davis Tube Recovery (DTR) of some Australian projects.

Table 3.1 – Mineral Resources of Australian Magnetite Projects

Project	Iron Bridge	Central Eyre	Razorback	Hawsons	Southdown	Lake Giles
Location	WA	SA	SA	NSW	WA	WA
Code	FMG	IRD	MGT	HIA	GRR	MIO
Compony	Fortescue	Iron	Magnetite	Hawsons	Grange	Macarthur
Company	Metals	Road	Mines	Iron	Resources	Resources
Market Cap	A\$69,191m	A\$88m	A\$36m	A\$76m	A\$1,221m	A\$25m
Interest	69%	100%	100%	100%	100%	100%
Development Study	Construction	NMP 2019	Expansion 2022	PFS 2017	PFS 2022	PFS 2022
Mineral Resource	6,184 Mt	4,510 Mt	4,200 Mt	2,500 Mt	1,257 Mt	721.7 Mt
DTR	22.7%	14.8%	15.8%	13.9%	33.7%	15%
Oro Turo	Banded	Choice	Ciltotono	Cilture	Choice	Banded
Ore Type	ironstone	Gheiss	Sitistone	Silisione	Glieiss	ironstone
Pre-stripping	n/a	Yes	No	Yes	n/a	Yes
Strip Ratio	n/a	0.72	0.13	0.40	n/a	2.64

Source: company announcements. NMP = New Mine Plan, PFS = Pre-Feasibility Study. Market capitalisations as at 27 Jan 2023

The mineral resource of the Razorback project has the critical mass to warrant development and is the only mineral resource having the combined benefits of no pre-stripping required and the lowest strip ratio. The Resource also benefits from the style of mineralisation in a relatively soft siltstone matrix, therefore processing costs associated with grinding are comparatively lower than its peers.

With regards to those characteristics, Magnetite Mines (ASX: MGT) appears significantly undervalued when compared to Hawsons Iron (ASX: HIA) and Iron Road (ASX; IRD).

Capital Intensity and Mine Life

Figure 3.1 summarises the capital intensity, initial mine life and product capacity of various Australian magnetite projects. The capital intensity of the Razorback project fits well within its peers. The project also benefits from a longer initial mine life. The Iron Bridge project from Fortescue Metals Group Ltd (ASX: FMG) opted for a large product capacity from start, resulting in a lower capital intensity. The higher DTR (22.7%) is also assisting a higher product output. Subject to partnership funding, a higher product capacity is an option for MGT to reduce the capital intensity and bring economies of scale. Also, significant upside exists for mine life with only a small proportion (8% in the PFS and 24% in the Expansion Study) of the available defined resource estimates utilised in current economic assessments.





Operating Costs

Figure 3.2 summarises the operating costs either disclosed by the various companies or derived from our financial model in the case of Magnetite Mines and the Razorback project. The operating costs for the Razorback project fits well with the range provided by recent development studies results disclosed recently. Figures for the Hawsons project based on the 2017 PFS are now outdated and underestimated. The overall figures should be increased to take into consideration the current inflationary environment.



Source: company announcements

Profitability

Table 3.2 summarises the key parameters in terms of profitability as defined by the development studies of each project. The use of different iron prices and discount rates make the comparison more difficult, but the data indicates that at this time the Razorback and Southdown projects are the most profitable.

Table 3.2 – Profitability Parameters

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Project	Unit	Razorback	Razorback	Southdown	Hawsons	Central Eyre	Lake Giles
Location		SA	SA	WA	NSW	SA	WA
Company		MGT	MGT	GRR	HIA	IRD	MIO
Development Study		Expansion 2022	PFS 2021	PFS 2022	PFS 2017	DFS 2014	PFS 2022
Concentrate Production	Mtpa	7	2.7	5	10.0	21.5	3
Iron Ore Price (62% Fe)	US\$/t	110.0	110.0	n/a	85.4	112.0	99.0
Product Premium	US\$/t	25.0	25.0	n/a	25.0	18.0	21.3
Product Price	US\$/t	135.0	135.0	126.19	110.4	130.0	120.3
Capex	US\$m	1,409	506	990	1,401	3,980	612.5
Discount Rate	%	8%	8%	10%	10%	12.5%	6%
NPV post tax	US\$m	1,743	502	934	1,432	2,690	315
Profitability Index	х	1.2	1.0	0.9	1.0	0.7	0.5
IRR post tax	%	27%	20%	22.5%	22.6%	21%	10.1%

Source: company announcements. Profitability index = NPV/Capex

4. Iron Ore Magnetite Market Developments

Iron Ore: Hematite v Magnetite

Iron ore is a mixture of chemical compounds of iron (Fe) and other minerals.

The chemical compounds of iron ore suitable for steelmaking are essentially ferric oxides – a mixture of iron with oxygen such as Fe_2O_3 (haematite) or Fe_3O_4 (magnetite).

The most commonly used iron-bearing minerals are magnetite and haematite.

The Pilbara region in Western Australia is rich in high-grade, predominantly haematite ore, known also as Direct Shipping Ore (DSO). DSO passes through a simple crushing, screening (milling) and blending process before it is shipped overseas for use in steel production. DSO, when mined, typically has iron content of between 56% Fe and 65% Fe.

Magnetite ore generally has an iron content of less than 40% Fe and is therefore unsuitable for steelmaking in its natural form. As its name implies, the iron in magnetite is magnetic and therefore can be separated from waste material by the application of a magnetic field.

Magnetite grain size and its degree of integration with the host rock determines the grind size to which the ore must be crushed and ground to enable effective magnetic separation.

The energy input requirement is commensurate with the level of crushing and grinding.

South Australia's magnetite ore is characteristically soft (low hardness) with large grain sizes in comparison with magnetite ore from other identified global magnetite regions.

The magnetite concentrate that can be produced from South Australian magnetite is a high-grade product to greater than 65% Fe with low impurities that is highly sought after by steelmakers to increase productivity, provide efficiencies and reduce emissions.



Figure 4.1 – Global Iron Ore Production: Haematite v Magnetite

Decarbonanisation of the Steel Manufacturing Industry

Energy constitutes a significant portion of the cost of steel production. The steel industry significantly increased its share of global emissions in the last 20 years and currently represents more than 7.2% of global CO₂ emissions. 85% of the emissions from steel making are generated by the reduction and smelting of ore.



Source: 1. Left pie chart: Our World in Data (2020), numbers may not add up due to rounding. 2. Right pie chart: Data from IEA and Wood Mackenzie.

The steel making industry is one of the largest consumers of coal on the planet. For every tonne of steel produced, around two tonnes of greenhouse gases are emitted.

Global steel production is currently heavily reliant on coal. Almost 70% of the steel manufactured globally uses coal. Magnetite concentrate is exothermic, releasing heat during processes for steelmaking, requiring less external energy inputs (e.g. coal). The use of magnetite concentrates in sinter feed blends and pellet feed is widespread. Chinese steel mills are receptive to magnetite products supplied from foreign sources.

Steelmakers seek efficiencies to reduce, manage and control emissions from the steelmaking process. The use of magnetite concentrate in place of haematite can reduce the emissions intensity by as much as 30% in the overall steelmaking process.

In parallel, Direct Shipping Ore reserves are declining, coupled with increasing levels of deleterious impurities which increases steelmaking costs. This indicates reserve depletion of easily accessible, cheaply extracted DSO. Global demand is increasing for high-grade, low impurity feedstock for steelmakers.

In this context, magnetite iron ore feed has an increasing role to play as a feed in blast furnaces. In the same time, the development of direct reduced iron (DRI) processes will require high-grade magnetite feed.

According to Bloomberg New Energy Finance (BNEF), the transition from blast furnaces to direct reduced iron (DRI) processes will push the demand for DR-grade iron ore to increase 10-fold to reach 60% DRI by 2050.

The South Australian Magnetite Advantage

Magnetite ores require initial crushing and screening like DSO, but then undergo successive stages of additional processing to produce a magnetite concentrate or pellets.

Unique mineralogical characteristics consisting of relatively soft ore and wellformed crystals define much of South Australia's magnetite resulting in a concentrate that has comparatively lower input costs, higher iron grade and lower levels of deleterious impurities such as alumina, silica, phosphorus and sulphur. South Australia's magnetite resources projects benefit from having a highly sought-after combination of hardness, integration with host rock and grain size to be globally competitive. Large grain sizes are not a feature of the Razorback project nor Braemar Iron Formation ores. The mineralisation is made of fine, but well-formed crystals with little intergrowth textures, therefore once crystals are liberated, they produce a very clean, high grade concentrate.

Premium Products Attract Premium Prices

Further processing of magnetite concentrate can produce sinter or pellets that can be fed directly into blast furnaces and electric arc furnaces, including direct reduction iron (DRI) steelmaking plants. Pellets and concentrates are premium products that attract higher prices from steelmakers.

Premiums can reach up to US\$90/tonne, which means a potential doubling of revenue for some magnetite products.

The magnetite products that are expected to be in demand during the next five to 10 years include:

- high-grade concentrates for use in sinter blends
 - high-grade concentrates for blast furnace pellet feed blends, and
- very high-grade concentrates (>67% Fe, and <3% silica/alumina) for use as feed stock for direct reduction pellet production.

In the case of sinter and blast furnace pellet applications, magnetite concentrates will increasingly be needed to displace China's domestic concentrates as reserves are depleted and operations are closed due to uncompetitive costs and increasing environmental regulation. An opportunity exists for South Australia's magnetite products to meet this expected shortfall.

South Australian Government Support

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The South Australian government's vision is to see the State becoming a leading global supplier of quality magnetite products for steelmaking by 2030.

South Australia aims to secure billions of dollars in investment to unlock magnetite resources and increase magnetite production to 50 million tonnes per annum by 2030.

To reach this goal, the South Australian government is pursuing the following actions:

- Engaging with stakeholders and industry partners
- Forging private-public partnerships to build transformational bulk-commodity infrastructure within a multi-user framework
- Supporting a strong and sustainable Australian steel industry

Recent Magnetite Projects Development Activity in Australia

Listed below are the recent announcements made in relation to the development of magnetite projects in Australia:

- Fortescue Metals Group Limited's (ASX: FMG) Iron Bridge 22mtpa magnetite project under construction (capex of US\$3.6 to US\$3.8 billion) in the Pilbara with commissioning expected in the March quarter 2023 (AGM presentation 22 November 2022)
- Fortescue Metals Group Ltd (ASX: FMG) and Sinosteel have signed a binding Memorandum of Understanding (MoU) to complete a rapid project assessment

of Sinosteel's Midwest Magnetite Project, with the assessment to include a rail and port development at Oakajee. At the conclusion of the 12-month rapid project assessment and subject to the outcome of that process, FMG has the option to acquire up to 50% of the Midwest Magnetite Project and up to 100% of the proposed port and rail infrastructure project (ASX announcement 21 January 2022)

- Mineral Resources Limited (ASX: MRL) is drilling at the Koolyanobbing Magnetite project to scope the resource potential for economic development (ASX announcement 26 October 2021)
- Macarthur Minerals Limited (ASX: MMS) Lake Giles Positive Feasibility Study announcement (ASX announcement 21 March 2022)
- Hancock Prospecting executed a JV agreement on 7 April 2022, to acquire 30% of the Mt Bevan project (neighbouring project to Mount Ida) with Legacy Iron Ore Ltd (ASX: LCY) now 42% and Hawthorn Resources Ltd (ASX: HAW) now 28%. The JV partners are currently undertaking a Pre-Feasibility Study (ASX announcement 3 May 2022)
- Cashmere Iron Cashmere Downs project PFS expected Q3 2022 (Global Iron Conference presentation 29 July 2022)

5. Magnetite Mines Projects

Project Location



Source: MGT

The Razorback Iron Ore Project is a 100% owned magnetite iron ore deposit capable of producing a high-grade iron ore concentrate product for use in steel production.

The Project consists of two very large magnetite iron ore deposits, the Razorback and the Ironback Hill deposits hosted in the Braemar Iron Formation. It is located 240 NE of Adelaide, South Australia, near the regional town of Yunta in arid, low-intensity pastoral country.

The large resource base is held within five 100% owned and operated tenements EL 6353, 6126, 6127, 6037 and EL 5902 totalling 1,520km². The Project is situated 50km from open-user rail, 125km from the power grid and 200km from existing deep-water ports.

The Braemar Iron Formation is the host rock to magnetite mineralisation on the Project. This formation has a strike length of approximately 110km within the area controlled by MGT.

More recently, MGT acquired the 1.5 billion tonne Muster Dam Project located 110km to the north-east of the Razorback Project.

The Muster Dam Iron Ore Project is located in the north-east pastoral district of South Australia, approximately 90 km south-west of Broken Hill (Figure 5.1). Located within Exploration License EL6746, which was granted to Magnetite Mines on 6 May 2022, the tenement includes the iron prospects known as Muster Dam, Surrender Dam, Duffields and Peaked Hill.

Similar to the Company's Razorback Project, Muster Dam is located in close proximity to existing infrastructure, being positioned 40km from rail and sealed roads, 75km from the nearest high voltage powerline and 110km from the mining town of Broken Hill.

Mineralisation

The Razorback Project covers sedimentary lithologies of the Adelaide Geosyncline, a linear north-south to north-east trending tectonic rift basin comprising sediments deposited during the late Proterozoic and early Cambrian Eras. The host rock to the magnetite at the Razorback Project is Neoproterozoic glaciogenic meta-sediment of the Braemar Iron Formation.

The mineralisation within the Braemar Iron Formation forms a simple dipping tabular body with only minor faulting, folding and intrusives. Grades, thickness, dip and outcropping geometry remain very consistent over kilometers of strike. While the bedded magnetite has the highest in situ iron content, typically 19-35% Fe, the tillitic unit, at typically 15-26% Fe is diluted by the inclusion of lithic fragments, such as granite and metasedimentary dropstones.

Mineral Resource

The Mineral Resource Estimate at a 11% eDTR cut-off grade for the Razorback Iron Ore Project is summarised in Table 5.1 as well as the mineral resource of the recently acquired Muster Dam project.

Razorback Iron Ore P	roject ^{,A}							
Classification	Tonnes (Mt)	Mass Rec %	Fe %	SiO₂%	Al₂O ₃ %	Р%	LOI %	Magnetite %
Indicated	1,500	15.6	18.5	47.9	8.0	0.18	5.4	15.0
Inferred	1,500	16.0	18.0	48.3	8.2	0.18	5.5	15.9
Sub-total	3,000	15.8	18.2	48.1	8.1	0.18	5.5	15.5
Results presented at 11%	6 eDTR cutoff							
Ironback Hill ^{: ,B}								
Classification	Tonnes (Mt)	Mass Rec %	Fe %	SiO₂%	Al ₂ O ₃ %	Р%	LOI %	Magnetite %
Inferred	1,187	-	23.2	44.4	7.2	0.21	5.4	12.9
No cut-off applied to res	ults							
Muster Dam Iron Ore	Project ^c							
Classification	Tonnes (Mt)	Mass Rec %	Fe %	SiO₂%	Al ₂ O ₃ %	Р%	LOI %	Magnetite %
Inferred	1,550	15.2	18.7	49.6	8.8	0.2	2.8	-
Results presented at 109	% eDTR cutoff							

Table 5.1 – Magnetite Mines Mineral Resource

Global Mineral Resource	ce Estimate*							
Classification	Tonnes (Mt)	Mass Rec %	Fe%	SiO₂%	Al₂O ₃ %	Р%	LOI %	Magnetite %
Inferred and Indicated	5,740	-	19.4	47.7	8.1	0.2	4.7	-
Results presented as weighted averages of items A B and C								

Source: MGT.

Ore Reserve

Table 5.2 summarises the ore reserve estimated at the time of the PFS released in July 2021.

Table 5.2 – Razorback Ore Reserve						
Razorback Iron Ore Project Ore Reserve	Ore (Mt)	Mass Recovery	Concentrate (Mt)			
Probable	472.7	14.5	68.5			

Source: MGT

The Expansion Study released in March 2022 considers a larger mining inventory of 1,365 million tonnes with a mass recovery of 14.4%.

The ore reserve represents only 8% of the MGT global mineral resource and the mining inventory represents 24%.

Mining

The mining strategy for the Razorback project is consistent with the overall approach of lowering risk and reducing costs. This is achieved through the use of mining contractors at start-up to simplify development and leveraging the inherent resource advantages of low strip ratio and short, flat hauls due to orebody geometry and outcropping nature.

The potential for selective mining is a key criterion and a simple truck and shovel operation was selected as a flexible, reliable and selective method of resource extraction. Bulk methods such as electric rope shovels, in-pit crushing and conveying and continuous miners were investigated but not selected.

Reserve Upside

The Iron Peak deposit represents potential future upside. It is located close to the Razorback pits and has recently been the subject of a drilling campaign, for which the results are presently being assessed. Iron Peak features higher grades and mass recoveries but was not included in the Expansion Study (or the PFS) as it was not fully defined to JORC Measured and Indicated classification. MGT expects that the Iron Peak deposit will feature in future mining studies and has the potential to significantly enhance grades, mass recoveries and financial outcomes in the early years of operation.

Metallurgy and Processing

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The selected processing flow sheet for each of the processing plant staged modules was unchanged following PFS studies and includes:

- Crushing Circuit: Consisting of primary gyratory and secondary cone crushers
 - Grinding and air separation through the use of High-Pressure Grinding Rolls (HPGRs) with ore reporting to static/dynamic air classification.
- Primary (rougher) and secondary magnetic separation
- Rougher flotation and LFCU: to facilitate the rejection of non-Fe minerals
- Fine grinding for silica rich flotation concentrate
- Cleaner magnetic separation

Table 5.3 summarises the Razorback product specifications.

	Table 5.3 – Razorback Iron Ore Project Indicative Product Specifications						
	Recovery	Fe%	SiO₂%	Al₂O₃%	Р%	S%	
Magnetite product	16%	67.5-68.5%	3.9-4.6%	0.4-0.5%	0.02%	0.003%	
	Source: N	IGT. Indicative conc	entrate specificatio	ns are based on	prior metallurgio	al testwork and	

Davis Tube Recovery (DTR) testwork. A 68.5% Fe product has been demonstrated in. previous bulk metallurgical testwork and may be achievable at processing plant scales pending further testwork.



Power

The peak power usage of the Razorback Iron Ore Project is approximately 34 MW with a total site demand of 120 MVA for the Expansion to 7 Mtpa product capacity.

The solution chosen was to build a new 275 kV power line for the Stage 2 expansion for a substation separate to the Robertstown substation (there is not enough capacity to support an expansion at Robertstown without significant investment and the high voltage allows for significant reduction in line losses).

Water

Water is required for processing and mining activities at the Razorback Iron Ore Project. Water requirements for the Stage 1 production scenarios is estimated at 5.5GL/year.

Three key options were identified for the Expansion Study to support Stages 2 and 3:

- 1. Eastern bore field inferred supply 4GL/year
- 2. Murray Basin saline wastewater offtake inferred supply 5 to 15GL/year
- 3. Murray Basin groundwater inferred supply 5GL/year

Logistics

A key focus of the Expansion Study was understanding the viability of building a rail loop to the mine site to replace road haulage, which is expected to occur at Stage 2 in the Staged Expansion case and Stage 3 in the Single-Step Expansion case. In all other respects, outbound logistics remained unchanged from the assumptions detailed in the July 2021 PFS.

Accordingly, the transport and delivery of magnetite concentrate from the mine gate to customers under the expansion cases is as follows:

	Stage 1	Stage 2	Stage 3				
Road	Road haulage to rail a siding connecting to the Crystal Brook-Broken Hill railway	aulage to rail a siding lecting to the Crystal Haul road used as access ro k-Broken Hill railway					
Rail	Rail haulage from rail siding to Whyalla Port	Rail freight directly from site to the Whyalla Port via a newly- constructed balloon loop linking into the Crystal Brook- Broken Hill railway					
Port		Transhipment to Capesize vesse	ls				
Shipping	Shipmonton	Capasiza vassals ta custamar-da	signated parts				

Table 5.4 – Razorback Product Export Logistics

Production and Exploration Upside

Considering that the PFS and the Expansion Study are mining only 8% and 24% of the mineral resource there is significant scope to increase both mine life and production rate.

Also subject to further drilling, aeromagnetic surveys suggests that significant upside exists for delineating further mineral resources.

6. Directors & Management Team

Directors and management have substantial experience leaving the company in very capable hands.

Mark Eames, Chairman

Mr Eames has a successful track record in the global minerals industry in exploration, evaluation, development, acquisitions, operations, marketing and senior corporate management. He is a qualified metallurgist with extensive experience in Australia and overseas and has held senior roles working with the iron ore businesses of Glencore, Rio Tinto and BHP.

Mr Eames graduated with a BA (Metallurgy)(Hons) from the University of Cambridge, UK. He is a member of the Australasian Institute of Mining and Metallurgy. Mr Eames is a past and present Director of other publicly listed Australian companies, including Universal Coal, where he was interim Chair, and Sphere Minerals Ltd, where he was the Chief Executive Officer.

Peter Schubert, Non-Executive Director

Mr Schubert is a professional investor with business development and entrepreneurial skills teamed with over 32 years of direct experience in international and domestic markets. Mr Schubert has strong, established ties to the investment community, particularly in relation to the Australian resource sector.

During his career Mr Schubert has developed a range of businesses across various sectors with an emphasis on support for the establishment of various Australian resource companies.

James (Jim) McKerlie, Non-Executive Director

Qualifications: Bachelor of Economics, FAICD, Fellow of Chartered Accountants ANZ, Diploma in Financial Management.

Mr McKerlie has an extensive career as an international chief executive with public and private companies, management consultant with Deloitte and KPMG and as a public company director including Chair of Drillsearch for 8 years, Beach Energy and ELMO. He has chaired four IPOs and has depth of experience in technology and energy sectors. Mr McKerlie's primary interests are growing businesses, building shareholder value and ensuring appropriate governance procedures are in place. He also has 20 years broadcast experience as a national media presenter in finance and economics. Mr McKerlie was appointed a director on 12 January 2022.

Paul White, Non-Executive Director

Qualifications: Master of Business Administration, Member of AICD

Mr White is a highly accomplished and experienced business leader with a track record of driving organisational performance and delivering superior outcomes in both corporate and board positions. He has substantial executive experience with global mining companies including FTSE-listed Anglo American and Glencore, with expertise in people strategy, business transformation and community stakeholder relations.

Until March 2021, Mr White was the CEO of ASX-listed Brisbane Broncos, a position he held for a decade with an outstanding ability in developing ongoing, strategic relationships across a range of stakeholders to drive growth and expand partnerships.

Prior to his role with the Broncos, Mr White gained considerable experience within the mining sector over an 8-year period in a variety of senior leadership and executive roles, both within site-based operations and corporate roles. He also spent 17 years in the Queensland Police Service finishing his career as the Officer in Charge of Mount Isa.

Throughout his career, Mr White has been extensively involved in working with Aboriginal and Torres Strait Islander communities and in particular, Aboriginal and Torres Strait Islander youth programmes. In 2017, his work in this area was recognised in his nomination for Queensland's Australian of the Year Award. Mr White was appointed a director on 12 January 2022.

Simon Wandke, Non-Executive Director

Qualifications: Bachelor of Arts (Psychology), Bachelor of Marketing (Commerce), Graduate of Australia Institute of Company Directors (GAICD), Diploma in Corporate Finance

Mr Wandke is a highly accomplished C-suite leader, with extensive global iron ore leadership, strategy, value chain and commercial experience in major resource organisations. Most recently, Mr Wandke was Executive Vice President and Chief Executive Officer of ArcelorMittal Mining, the world's leading steel company with the fifth largest iron ore business globally. During his tenure, Mr Wandke played a key role in helping to drive the mining division forward to the next stage of its development as one of the largest global producers of iron ore, coking coal and other minerals.

Mr Wandke has over 40 years' experience in the mining and minerals industry, holding senior management, strategy and commercial positions internationally with a particular focus on the development of greenfield and brownfield projects, designing and implementing major change and effective commercial strategies, strategic marketing, risk management and ESG. Mr Wandke was appointed a director on 6 June 2022.

Tim Dobson, Chief Executive Officer

Mr Dobson has more than 30 years' international experience leading and developing world-class operations, with a successful track record in transformational leadership through the application of sound strategy, technical capability and building high-performance teams. Most recently he was CEO of Heron Resources, which he joined in early 2020 as Covid- 19 impacts forced mine closures and established a strategic process leading to the refinancing and resumption of mining operations. Prior to that, he worked for six years with Sherritt International Corporation where he was President of its US\$8bn Ambatovy nickel operations in Madagascar during its transition from early rampup to stable operations before assuming responsibility for the company's nickel and cobalt operations in Canada and Cuba. He has also held a series of executive leadership roles with Norilsk Nickel, Lihir Gold (PNG), Kimberley Rare Earths, Anova Metals and Polymetals, where Mr Dobson lead the development of the successful White Dam project in South Australia. Mr Dobson holds a BAppSc in Extractive Metallurgy from the WA School of Mines. Mr Dobson was appointed as CEO on 23 August 2022. Mr Dobson holds 800,000 fully paid ordinary shares in the Company.

Ian Kirkham, Chief Financial Officer

Mr Kirkham has over 20 years of experience in project evaluation and construction, equity and debt markets, statutory reporting, treasury, taxation and corporate governance. Before becoming the Chief Financial Officer at Magnetite Mines Limited, he was CFO and Company Secretary for Eastern Star Gas Limited, subject to a A\$924 million takeover by Santos Limited. Previous executive experience includes similar posts for ASX listed companies including Warrego Energy Limited, Hillgrove Resources Limited, Allstate Explorations NL and Otter Gold Mines Limited. In all these roles he worked closely with CEOs, Boards, Audit and Risk Committees etc. to evaluate, finance and construct resource projects. Ian's early career involved audit positions with Coopers & Lybrand in Sydney and Toronto. He holds a bachelor's degree in Economics and is a member of the Institute of Chartered Accountants Australia and New Zealand and AICD.

7. Investment Risks

MGT is exposed to a number of risks including:

- **Geological risk**: the actual characteristics of an ore deposit may differ significantly from initial interpretations.
- Resource risk: all resource estimates are expressions of judgement based on knowledge, experience and industry practice. Estimates, which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate.
- **Commodity price risk:** the revenues MGT will derive mainly through the sale of iron ore magnetite products exposing the potential income to commodity price risk. The price of iron ore fluctuates and is affected by many factors beyond the control of MGT. Such factors include supply and demand fluctuations, technological advancements and macro-economic factors.
- Exchange Rate risk: The revenue MGT derives from the sale of iron ore products exposes the potential income to exchange rate risk. International prices of commodities are denominated in United States dollars, whereas most of operating costs are in Australian dollars and the financial reporting currency of MGT is the Australian dollar, exposing the company to the fluctuations and volatility of the rate of exchange between the AUD and USD as determined by international markets.
- Mining risk: A reduction in mine production would result in reduced revenue.
- Processing risks: A reduction in plant throughput would result in reduced revenue. In all processing plants, some metal is lost rather than reporting to the valuable product. If the recovery of metal is less than forecast, then revenue will be reduced.
- **Operational cost risk:** an increase in operating costs will reduce the profitability and free cash generation of the project.
- Management and labour risk: an experienced and skilled management team is essential to the successful development and operation of mining projects.

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