

Berkeley Energy^{1,2,7}

BUY

BKY-LSE/BKY-ASX

November 8, 2015

 Last: **27p**
 Target: **70p**

Initiating coverage: Salamanca positioned for development

Low capital near-term development

Berkeley Energy is a uranium developer whose key Salamanca project is located in Spain. The incorporation of the high grade Zona 7 deposit into an updated PFS released last week has transformed the economics of the project. Salamanca is now positioned as one of the world's best undeveloped near production uranium assets with large-scale production potential, best in class operating costs, low start-up capital and with all the permits in place to commence initial site works mid next year.

Extremely robust economics from PFS

The PFS outlines production of ~3Mlbs pa over 17 years with lowest quartile opex of US\$17.50/lb at steady state production. The abundance of existing infrastructure in Spain, coupled with the low-strip ratio of the open pits and the use of heap-leach processing drives very low capital intensity, with initial project capex required of only US\$81m. The company has estimated an NPV_{8%} of US\$871m at contract prices of US\$65/lb with a 93% IRR. Using current 2H15 contract prices, the project still delivers robust economics.

Structural support for uranium gaining momentum

Support for nuclear as a clean-energy source is gaining momentum, as exemplified by the recent £40bn agreement between the UK and China for Hinkley Point, the re-start of Japanese nuclear reactors post-Fukushima and the long pipeline of nuclear reactors in China, India and Russia. With more than 160 nuclear reactors in operation across Europe – but only one small uranium mine in production in the Czech Republic – Europe has by far the lowest security of supply of any of the major economies.

Initiate with BUY rating and 70p price target

We model the project per the PFS, using US\$55/lb uranium price per 2H15 contract prices. Discounting today and adding SG&A plus finance charges on 55% debt drives our project NPV of US\$610m and 56% IRR. We model an equity raise in 2016 at a modest 30% premium for a NAV of US\$669m and initiate with a BUY rating, and 0.5xNAV_{8%} multiple to reflect future timing and build risk for a 70p PT. An average of 7xEBITDA +3yrs and NAV +3yrs drives a fully-funded fully-diluted 'exit' valuation of ~115p/sh even if equity is raised at spot, or 160p/sh at US\$65/lb.

SUMMARY	New		
Rating	BUY		
Target	70p		
Key project	Salamanca		
Commodity	Uranium		
Location	Spain		
Stage	PFS		
1.0xNAV	136p		
P/NAV (x)	0.20		
SHARE DATA			
Shares (mm, basic/f.d.)	180.4 / 324.8		
52-week high/low	29p / 11p		
3M avg daily vol ('000)	387.0		
3M avg daily val ('000)	114.4		
Market cap	72.6		
Net cash (debt)	9.4		
EV	63.2		
Projected return	156%		
FINANCIAL DATA			
Year to Dec	FY15A	FY16E	FY17E
Revenue (A\$m)	0.6	-	-
EBITDA (A\$m)	(7.9)	(9.3)	(5.0)
Income (A\$m)	(7.9)	(9.0)	(13.5)
EPS (\$)	(0.0)	(0.0)	(0.0)
CFPS (\$)	(2.9)	(2.0)	(0.9)
PER (x)	-	-	-
PCF (x)	-	-	-
EV/EBITDA (x)	-	-	-

All in US dollars unless otherwise stated

 Current Chart

 Previous Research

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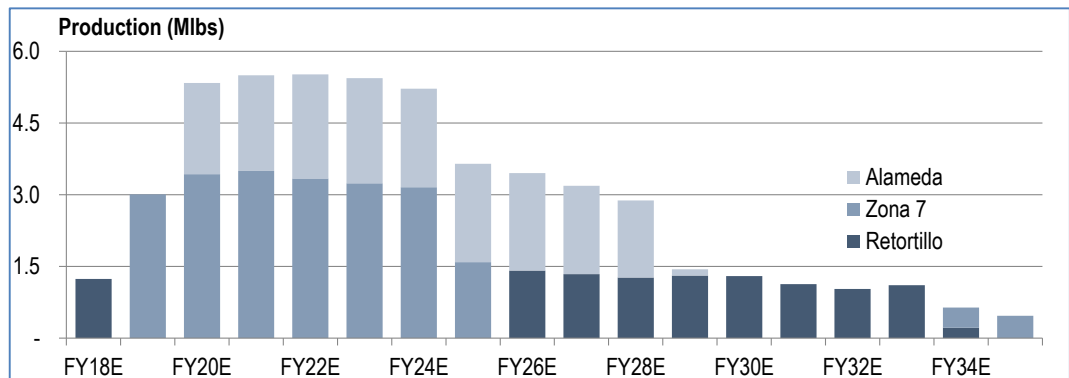
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The Zona 7 revolution: Mine life and grade up, opex down

Exploration drilling by Berkeley during late 2014 revealed a high-grade near surface extension to the existing resource at Zona 7 and transformed the deposit into one of the most exciting uranium discoveries in recent years. The orebody at Zona 7 sits just 5m below surface and extends down to a maximum depth of 70m, with a current resource estimate of 31Mlbs U₃O₈ including an indicated resource of 17.1 million tonnes at 735 ppm containing 27.8Mlbs of U₃O₈. The discovery that the 2007 Zona 7 resource was ~9x bigger than initially drilled revolutionised the asset base not just from size, but at higher grade and lower strip. The advantages have now been quantified in the maiden integrated PFS, with Zona 7 driving a lift in grade from 316ppm to 396ppm, strip down from 1:2.1 to 1:1.8, and mine life up from 11 years to 17 years. Combined with the EUR/USD fall 1.28 to 1.11, this has driven opex down from US\$24.6/lb to 17.5/lb, and initial capex down from US\$95m to US\$81m. We don't think this ends here, with good potential for Zona 7 replicas to be identified with drilling in 2016.

Figure 1. GMPe Salamanca production profile



Source: GMP, company data

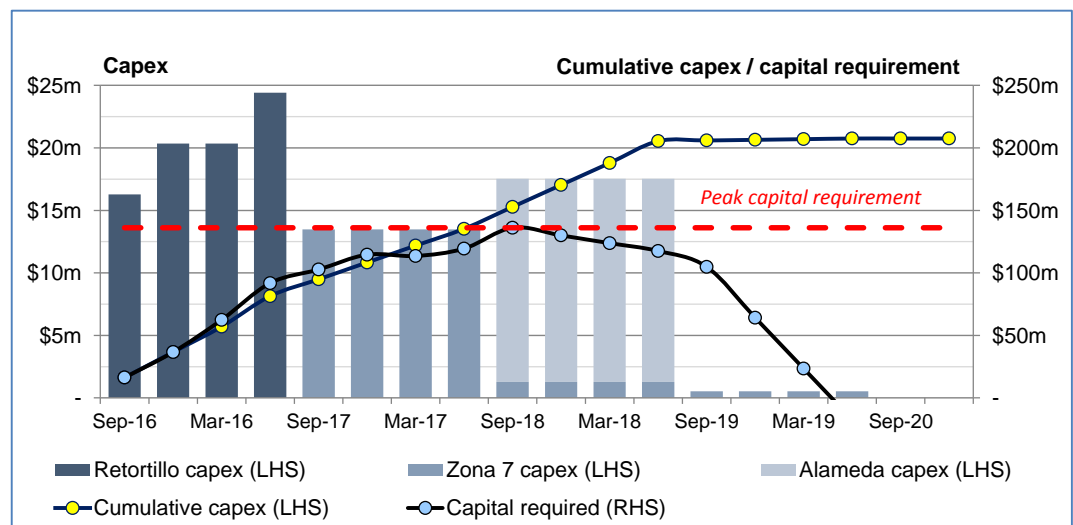
EU location and simple heap leach drive capex and opex advantage

As commodity prices have continued to decline, and capital markets weakened further, only those projects that offer high IRRs coupled with a low absolute capital requirement are likely to attract financing in our view. Thanks to major EU investment in the region, the Salamanca project has an abundance of infrastructure in the form of sealed roads, power and accommodation. Spain's existing sealed roads, nearby accommodation and grid electricity all provide a material advantage. Quantifying this, Berkeley's intensity of ~US\$65/lb compares to peer Fission Uranium's Saskatchewan project at US\$153/lb. The ~doubling at Fission comes from infrastructure costs including ~C\$250m just for a lake-side dyke and slurry wall, C\$83m of pre-strip, and C\$116m for non-plant opex given Fission's remote location. In addition, having readily available diesel, grid electricity, local labour and mild weather, unit opex is far lower than peers for Berkeley. Using the comparison to Fission again, we estimate unit mining costs at only US\$2.03/t for Berkeley compared to US\$3.00/t for Fission, or US\$15/t of ore only. Processing for Berkeley has additional benefit of heap leaching, driving unit opex of only ~US\$6/t vs. US\$62/t for Fission. Ultimately, strip-ratio and grade are key; at ~US\$25/lb, the prior studies were solid but not best quartile, but at US\$17.50/lb at steady state, Zona 7 puts this project into the top tier of undeveloped projects globally.

Multiple pits provides flexibility and lowers cash requirement

The total project capex is just over US\$200m, but we estimate that the peak project-capital requirement is only ~US\$135m, which is total build capex less cumulative FCF to peak spend, as shown graphically below in Figure 2. Overall, we expect ~55% project finance, meaning the total project-equity requirement could only be ~US\$80m including working capital. Despite this being a relatively small amount, current market conditions are tough, which is where the opportunity to stage the build helps. Specifically, the initial capex for Retortillo only is just US\$81m. The other key advantage is of course on permitting, where the now-permitted plant site can commence construction, meaning that as soon as subsequent lower-risk mining permits come in for Zona 7 and Alameda, mining can start immediately with ore / concentrate being sent to the Retortillo plant.

Figure 2. Staged capex leaves peak capital requirements ~US\$50m under total capital

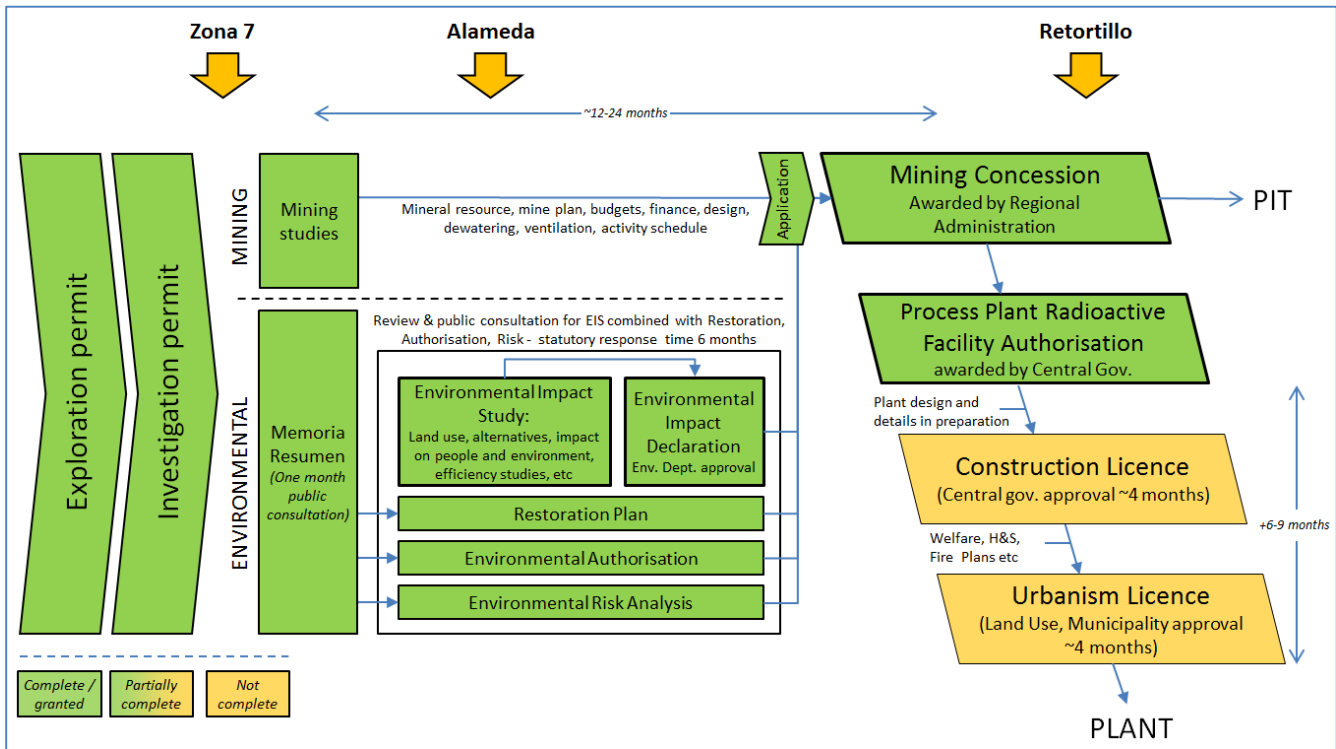


Source: GMP estimates

Permitting precedent set, benefits from absence of long-term tailings

The Salamanca project has an excellent advantage in essentially being fully permitted now that Berkeley has received all EU, national, regional and provincial permits required for the initial infrastructure development of Salamanca. One of the key advantages of heap leaching is the stable solid ‘tails’ in the exhausted heaps, which come with the double benefit of being able to be back-filled into the pit to simply return what was in the ground in the first place. Another key point is that given the region has very high unemployment, there is a high synergistic benefit from the mine. This is quantified by the 18,000 applications that were submitted for the first 200 jobs to be created in the region. In fact, this momentum alone, alongside plant permits already being in place, gives us high confidence of a routine future, progressive, permitting for additional pits. Elsewhere in Spain, once projects commence, we have seen the positive/supportive lobbying from locals seeking employment as a major contributor to supporting and speeding any approvals required.

Figure 3. Summary of permitting process, including near-complete Retortillo



Source: GMP

High margins drive strong EBITDA and exit NAV valuations

Spot uranium price is currently ~US\$37/lb, but only a small fraction of the global market sells at spot. Contract prices are typically negotiated at materially higher prices, as exemplified by ASX listed Peninsular energy, a company that recently negotiated ~2Mlbs pa of contract offtake from its USA mine at prices ‘significantly’ above spot, reported elsewhere to be at ~US\$55/lb. Even at spot US\$37/lb, margins are high, and at US\$55/lb, we estimate an EBITDA of US\$97m pa post SQ18 (Retortillo + Zona 7) lifting to US\$156m the following year (Zona 7 + Alameda). An ‘exit’ valuation for investors of 7xEBITDA three years forwards equates to US\$679m (US\$1.1bn year later as Alameda comes in). This earnings based valuation lifts well over US\$1bn at higher prices and beyond four years forward, as we show below, with NPVs also approaching US\$1bn.

Figure 4. Various exit valuation at different uranium prices

Uranium price (US\$/lb)	55	60	65
FY+3 EBITDA Retortillo + Zona 7 (US\$m)	97	111	126
FY+4 EBITDA - Zona 7 + Alameda (US\$m)	156	182	208
EV/EBITDA '15 (x)		7.00x	
Implied EV FY+3 EV/EBITDA (US\$m)	679	777	882
Implied EV FY+4 EV/EBITDA (US\$m)	1,092	1,274	1,456
1xNPV8% FY+3, +equity raised (US\$m)	765	888	1,011

Source: GMP estimates

Initiate with BUY rating and 70p/sh 0.5xNAV_{8%} FD price target at US\$55/lb

Our model, at US\$65/lb, discounted to the start of construction drives an NPV_{8%} of US\$877m, close to Berkeley’s estimated US\$871m, with differences from the timing on grade which we estimate deposit by deposit. We use US\$55/lb flat forward, the reported level of contractual offtakes being undertaken in 2H15. This lowers the NPV to US\$660m, and to US\$610m when discounted another year to today. To convert to corporate valuation, we deduct finance costs on 55% gearing, and central SG&A, which drives our NAV of US\$609m (US\$812m at US\$65/lb).

Equity dilution is key to quantifying upside – the first stage of capital expenditure will be for Retortillo with project capex of US\$81m. Post equity for this portion, we expect equity to come at increasing premiums. We estimate peak project capital requirements of US\$135m (Figure 2), and peak capital requirement of US\$151m. With overall gearing ~55% in our view, we model US\$68m equity at a modest 30% premium. We apply a 0.5xNAV_{8%} multiple to reflect the stage of the project and timing risk, funding and other risks documented overleaf, and on that basis initiate with a BUY rating and 70p PT. Should the company raise staged equity at higher levels, this would clearly be advantageous, as will the increase NAV multiple coming into production which we quantify overleaf in Figure 8.

Figure 5. Economics for PFS and GMPe

	PFS 2013	PFS 2015	Δ (%)	GMPe
Mine life (years)	11.0	17.5	37%	17.5
Ore mined (Mt)	49.9	69.6	28%	69.6
LOM strip ratio (t:t)	2.1	1.8	(14%)	1.8
Head grade (ppm U ₃ O ₈)	316	396	20%	395
Recovery (%)	85%	85%	-	85%
Total production (Mlb U ₃ O ₈)	29.7	51.6	42%	51.6
Plateau production (Mlbp U ₃ O ₈)	3.3	4.6	28%	5.1
Initial capex (US\$m)	95.1	81.4	(17%)	81.4
Total capex (US\$m)	169.5	200.3	15%	200.3
Opex per lb produced (US\$/lb)	24.6	17.5	(40%)	17.3
LOM gross margin (US\$m)	1,200*	2,450*	51%	1,952
NPV _{8%} (US\$m)	-	871*	-	610
IRR (%)	-	93%*	-	56%

Source: Berkeley Energy, GMP estimates, *using US\$65/lb

Figure 6. Fully-funded fully-diluted upside

	O/ship	USD	NAVx	USD	GBp/sh
Salamanca	100%	609.5	0.50	304.8	69
Cash	-	9.4	0.50	4.7	1
Debt	-	-	0.50	-	-
Equity raised	-	50.0	0.50	25.0	6
Cash from options	-	3.0	0.50	1.5	0
SG&A and central	-	(20.8)	0.50	(10.4)	(2)
Valuation (fd)		651	-	-	74

Source: GMP estimates

Catalysts

- H2 2016: Exploration results targeting further Zona 7 type deposits
- May 2016: DFS
- 2Q16: Initial mine build funding
- June 2016: Mine build commences
- 2H17: Berkeley target for first production

Risks

Funding is a key risk in current capital market conditions. We see this mitigated by the high IRR, but also the low absolute capital requirement and the low initial project-capital requirement of only US\$81m. The added benefit of being located in the EU potentially supports strong interest in debt, while the off-take market opens the door to hybrid or JV funding arrangements also. Nonetheless, it is difficult to calculate equity dilution, which remains a key risk to our thesis.

Timing is a key risk, with the DFS completion being partially reliant on external consultants,

Build risk is inherent to any mine build project. We see this as mitigated by small size, modular build meaning smaller individual capital requirements, and benefitting from an ample supply of in-country technical expertise. Between now, BFS and mine-build, we would expect to see the team built up though, and cornerstone employees GMP Ops Francisco ('Paco') Bellón and SVP Corporate Javier Colilla and should be able lead this given their extensive experience.

Permitting: Whilst all permits are in place for initial infrastructure development at Retortillo, the Alameda and Zona 7 deposits still need permits. We see this largely mitigated by three factors: (i) precedent being set for permits at the more involved plant site, and mine, at Retortillo, (ii) overwhelming public support as exemplified by 18,000 applications for the first 200 jobs and (iii) absence of large residual tailings given proposed heap leach and back-fill method.

Public perception for uranium mining is always variable. Overall, we see the EU drive to non CO₂ emitting technologies as offsetting any potential negative perceptions.

Upside

Move to production – the 're-rating' into production is often cited as a valuation catalyst, but this must be offset by equity dilution to build the mine. In Figure 8, to show the impact of dilution, we add equity to the current market cap, and compare this to an 'exit' valuation three years forward (avg. of EBITDA multiple and 1xNAV8%). This gives fully funded, fully diluted upside of 266%, or equivalent exit valuation of 97p/sh with equity at spot. As the BFS should support higher valuation for Retortillo equity, and build should support higher valuation for subsequent equity, this lifts to 106p and 112p if equity is raised at 30% or 60% premium, respectively.

Figure 7. Economics for PFS and GMPe

	PFS 2013	PFS 2015	Δ (%)	GMPe
Mine life (years)	11.0	17.5	37%	17.5
Ore mined (Mt)	49.9	69.6	28%	69.6
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Opex per lb produced (US\$/lb)	24.6	17.5	(40%)	17.3
LOM gross margin (US\$m)	1,200*	2,450*	51%	1,952
NPV _{8%} (US\$m)	-	871*	-	610
IRR (%)	-	93%*	-	56%

Source: Berkeley Energy, GMP estimates, *using US\$65/lb

Figure 8. Fully-funded fully-diluted upside

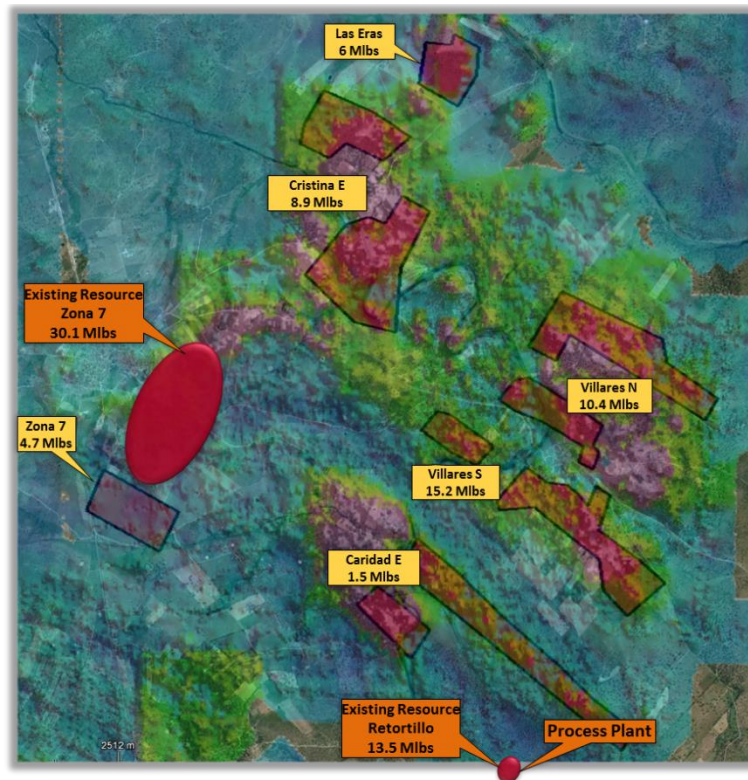
	Equity raised at	Spot	30%	60%
GMPe capital requirement (US\$m)			151	
FY+3 EBITDA (US\$m)			96	
Target EV/EBITDA '15 (x)			7.00x	
Implied EV from EV/EBITDA (US\$m)			672	
1xNPV8% FY+3, +equity raised (US\$m)			764	
Average (US\$m)			718	
Gearing (%)			55%	
Less debt required (US\$m)			(83)	
Cummulative market cap in prod'n (US\$m)			635	
Current market cap FD (US\$m)			78	
Plus equity required (US\$m)			68	
Cummulative FD market cap (US\$m)			146	
Fully diluted equity upside to production (%)		334%	386%	425%
Per share equivalent (p/sh)		115	129	139
Annual return on equity over 3yrs (%)		63%	69%	74%

Source: GMP estimates

Uranium price – we are conservatively modelling a flat forward contract price. As we flag in the prior section, at US\$65/lb, and if equity can be raised at a 50% premium on the back of the DFS / progressive builds lifting progressive equity raise prices, 150p is an achievable asset valuation once in production (Figure 8).

Zona 7 lookalikes – Zona 7 was discovered many years ago, but it wasn't until recently that the size potential of the deposit was revealed from step out drilling. The discovery is exciting because it contradicted the existing geological model, leading the company to do far more intensive radiometric studies, regional-scale structural and lithological mapping, and target determination for surface but also covered targets. Below, we show the radiometric map for the region around Zona 7, which includes six targets on the existing licence. The company has proposed an 11,000m drill programme for 2015, which pending board sign off could provide new discoveries.

Figure 9. Regional radiometric showing multiple near-mine targets



Source: Berkeley Energy

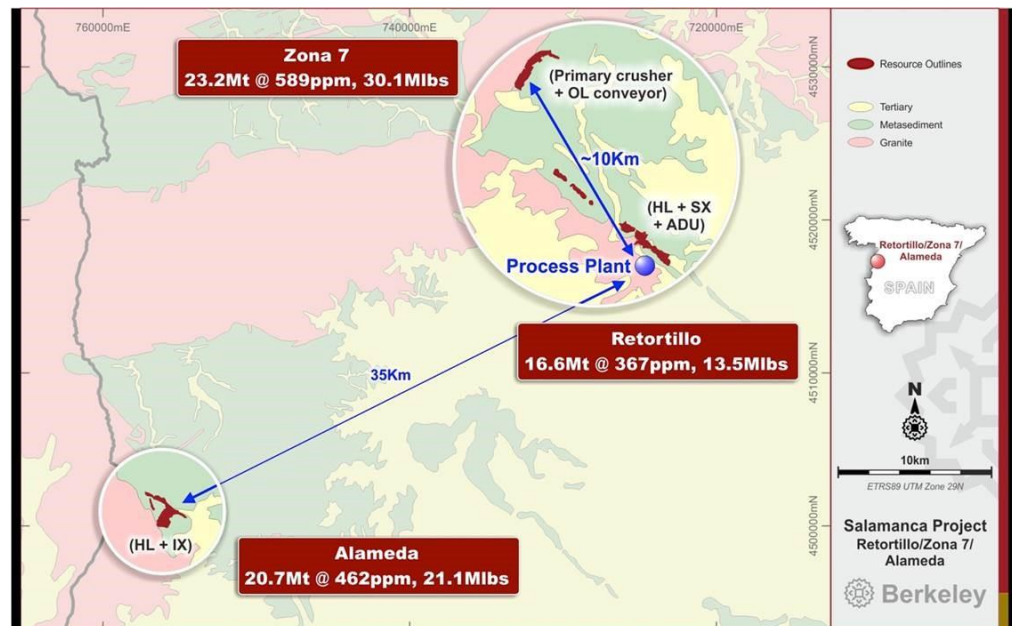
Overview

Berkeley's flagship asset is the Salamanca uranium deposit in western Spain. The deposits were acquired in 2005 as part of a larger package of tenements. Initial work focussed on both the Retortillo / Zona 7 area, on which an initial scoping study was released in 1Q08 followed by PFS in 1Q12 showing relatively limited production and moderate costs. However, at this time Zona 7 was only ~10% its current size, efforts moved to a 4Q09 study on assets in JV with para-statal uranium company Enusa including their old processing plant. This proved inefficient, and after the discovery of the Alameda resource nearby, Berkeley moved backed to an own-development option, releasing a 3Q13 PFS based on Retortillo and Alameda only. While ~doubling production,

at similar grades, costs were only marginally improved and stayed at the US\$25/lb level. It was the 4Q14 Zona 7 resource expansion from ~3Mlbs to >30Mlbs that enabled major improvements.

In 2015, new CEO Paul Atherley joined, and placed a priority on integrated economics for Retortillo, Alameda and Zona 7, which were released for this first time in last week’s 4Q15 PFS, with the added advantage of a falling USD/EUR. The company is now aiming to complete a BFS in 2Q16 and start construction by June next year, and pursue staged development with a central plant at the already-permitted Retortillo site.

Figure 10. Location of Retortillo, Zona 7 and Alameda projects in Spain

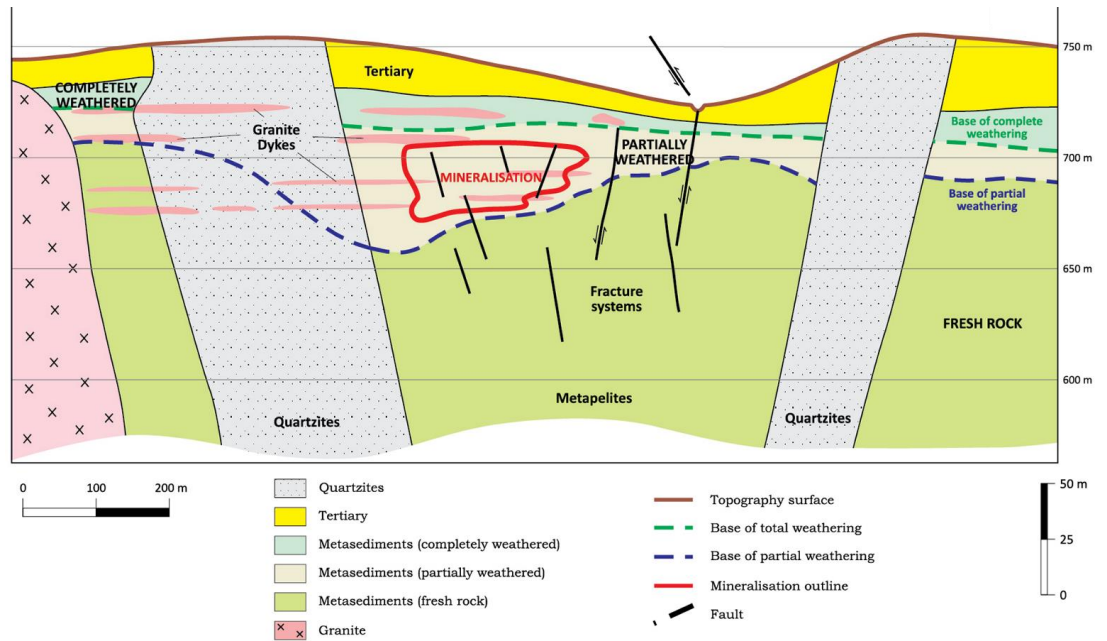


Source: Berkeley Energy

Geology

Retortillo and Alameda are both vein type uranium deposits hosted in meta-sedimentary sequences adjacent to granitic intrusive rocks. Black shales in the host sequence were naturally enriched in uranium, with hydrothermal fluids driven either by granitoids, or alternatively via deep seated hydrothermal systems along which granitoid subsequently intruded, mobilising and enriching the uranium. Uranium is hosted by Ordovician meta-sediments, and typically occurs as a sub-horizontal to shallowly dipping layer from surface to 100m deep. At Retortillo, the mineralised envelope is generally sub-horizontal and the mineralisation is contained within a stock-work of veins. The uranium mineralisation appears to be associated with the presence of sulphides within the partially weathered zone and the base of mineralisation is associated with the base of partial weathering which locally deepens along structures. At Alameda, the uranium mineralisation occurs in a complex network of moderately to steeply dipping brittle structures (veins, faults, fractures and along bedding contacts) as a result of a low temperature hydrothermal event. The mineralised zones commonly have sharp boundaries, separating mineralised structures from poorly mineralised host rock.

Figure 11. Schematic outline of geology at Retortillo

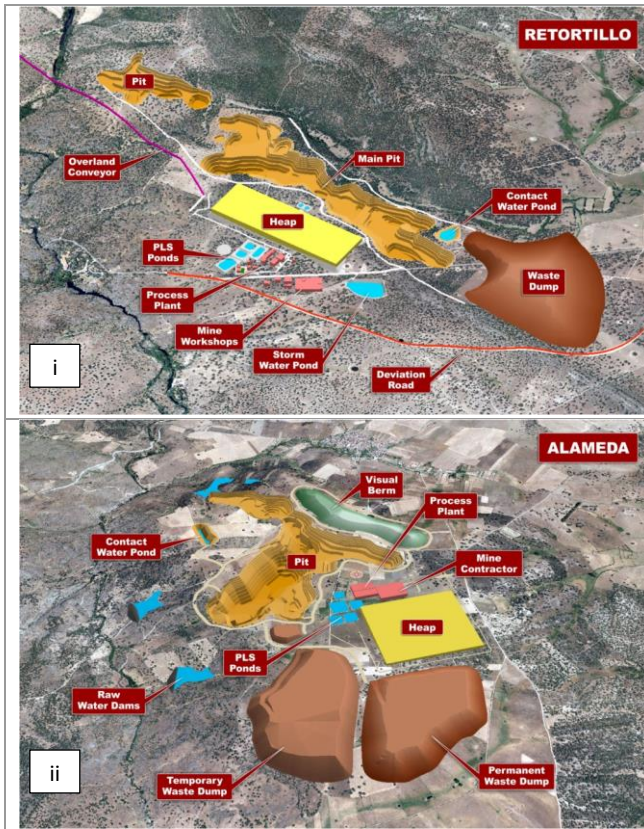


Source: Berkeley Energy

Mining

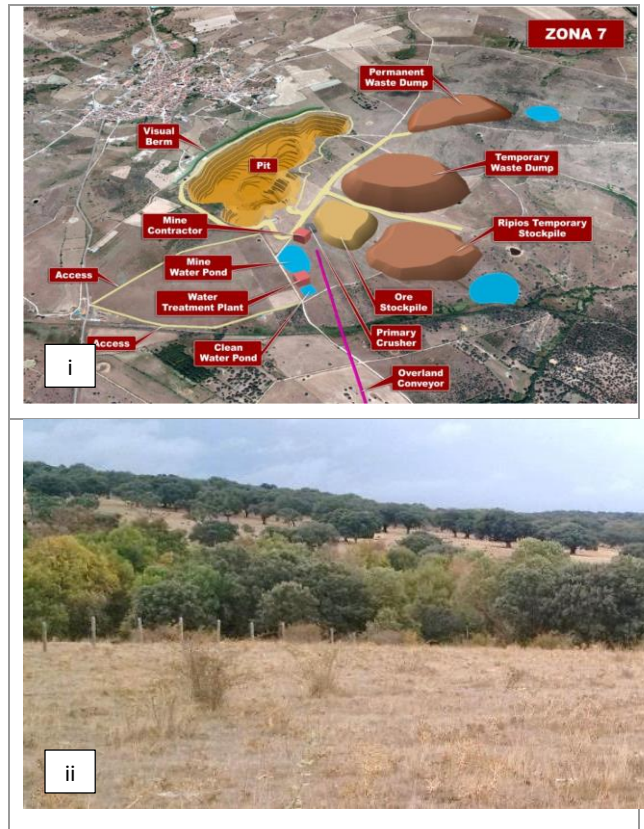
Mining at all three deposits will be undertaken by conventional truck and shovel. There is minimal dilution given the extremely thick zones of mineralisation, and pit walls are variably angled at 35-55°. The advantage of the Zona 7 discovery is that it lies only 10km from Retortillo. Similarly, the advantage of Retortillo is that it has a Mining Licence in place as well as nuclear and EIA approvals. Alameda is located further away so will be mined and concentrated on site using an ion exchange unit. With this in mind, the development approach will see the plant and mine starting at Retortillo, moving the ore source to Zona 7 as soon as permitted, then bring on Alameda thereafter for a quick-start utilising existing permits, and staged capex to reduce up-front cash draw. Initial mining at Retortillo will move to Zona 7 in year two, then Alameda in year three with Retortillo resuming mining in year nine once the higher grade ore from Zona 7 is mined out. Cumulatively 5.2mtpa of combined ore production should occur in steady state from years 2-11, with strip ratios of 2.7, 1.0 and 1.8 at Retortillo, Zona 7 and Alameda, respectively. Ore will be mined and heaped before ripio (depleted heap) being backfilled via 'transfer mining' to reduce impact.

Figure 12 (i) Retortillo and (ii) Alameda site layout



Source: Berkeley Energy

Figure 13 (i) Zona 7 layout, and (ii) Retortillo

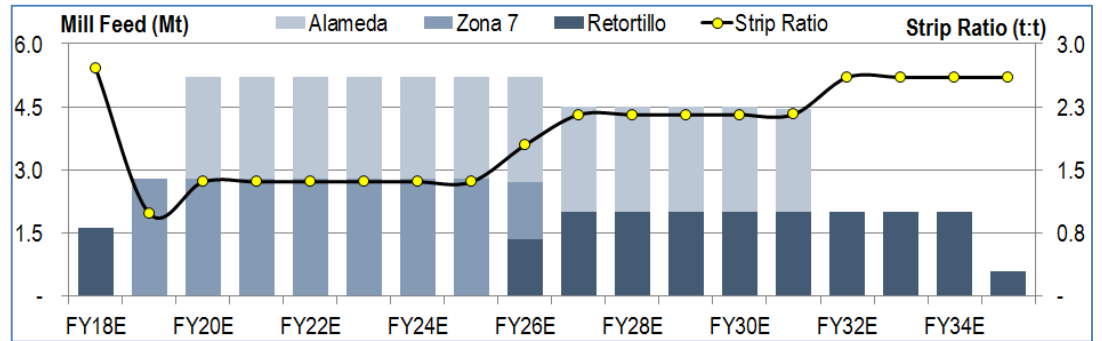


Source: (i) Berkeley, (ii) GMP

Processing and metallurgy

A heap-leach versus tank-leach trade off study resulted in heap leaching being selected given good recovery and low capex / opex. Heap leaching has the added benefit of backfill of spent ore from the on-off heap leach pads ('ripios') into the mined pits, removing the requirement for a tailings storage facility. Crushed ore will be agglomerated by direct feed into a conventional drum where spray bars will dose the ore with raffinate and sulphuric acid. No polymer addition is required for effective agglomeration. Heaps will be stacked in six metre lifts with a radial stacker with a 140-day leach cycle, and will have a 3.3Mt and 5Mt capacity at Retortillo and Alameda, respectively.

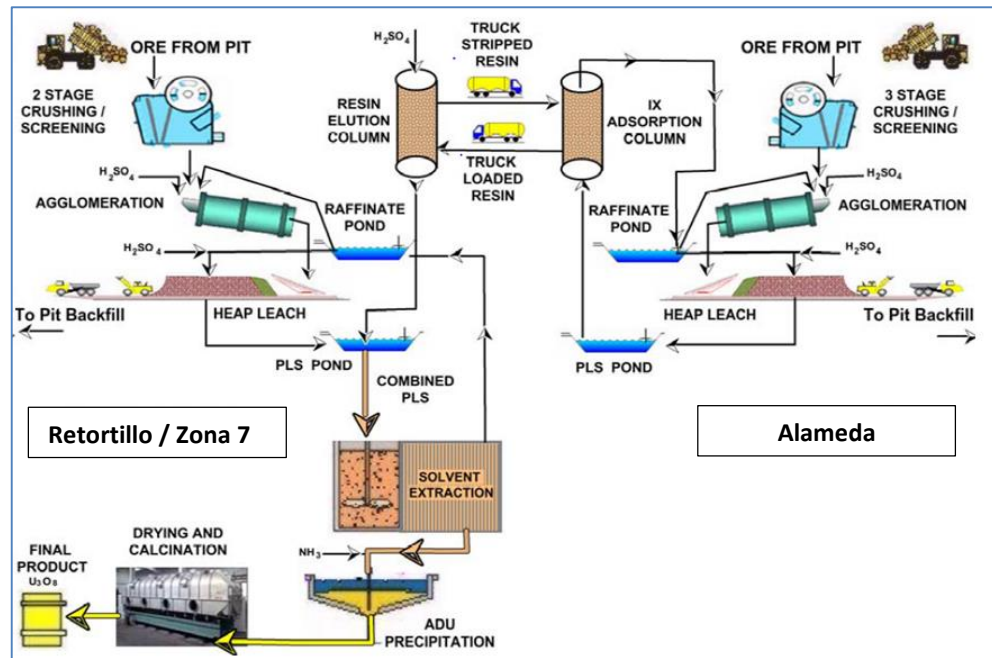
Figure 14. Salamanca Project process flow sheet



Source: Berkeley Energy

The facility is complete with ponds for makeup water, barren, immediate and pregnant leach solutions, storm water and all associated pumping and reagent storage facilities. The pad design includes a triple insulation system including two high density polyethylene sheets and a clay layer. The ripios will be removed from the heap leach pad and backfilled into isolated and lined (clay layer and HDPE liner) areas within the mined pits on a continuous basis once mining has advanced sufficiently to accommodate this.

Figure 15. Salamanca Project process flow sheet



Source: Berkeley Energy

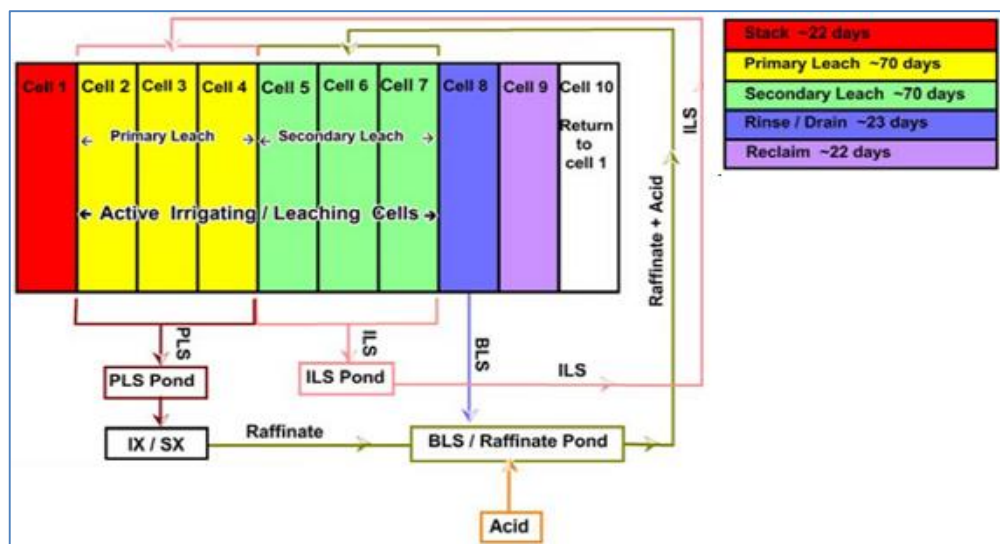
The pregnant leach solution will undergo uranium recovery and purification by SX, ADU precipitation and calcination at a centralised plant at Retortillo. Pregnant liquor solution from the heap leach process at Alameda will be passed through a IX adsorption columns, with the loaded resin trucked to the centralised plant ~50km away for final extraction and purification. The resin

trucking operation will be undertaken by an authorised contractor with a fleet of two trucks making six return trips per day in total on a five day per week basis.

The SX facility will be designed with four extraction steps, two scrub steps and four stages of stripping to produce a raffinate of <5mg/l U₃O₈. Regenerated resin will be returned to Alameda for re-use. At Retortillo, the heap leach PLS will contain approximately 250-300 mg/l of U₃O₈ and feed directly into the SX facility. The concentrated uranium solution from the SX plant is treated to precipitate the uranium using anhydrous ammonia. This solution is heated to a temperature of 30-40 degrees and ammonia is injected into the solution, raising the pH to around 7 and precipitating the uranium as ADU. The ADU slurry from the precipitation is pumped into a thickener for dewatering and the underflow dewatered further with centrifuges. The centrifuge cake is finally calcined at a temperature of 730 degrees to produce U₃O₈ which is drummed and prepared for shipping.

Yellow cake is drummed and prepared for shipping, and at this stage there is no indication of deleterious materials. Test work on 5t, 6.5t and 370kg bulk samples from Alameda, Retortillo and Zona 7 has shown excellent heap leach recovery, modelled at 85% for the PFS. Acid consumption is low at 18kg/t at Retortillo and Alameda, and 12kg/t at Zona 7, and the relatively coarse crush sizes of 40 mm two-stage for Retortillo and 12 mm three-stage for Alameda also keep costs down.

Figure 16. Salamanca Project heap leach cycle



Source: Berkeley Energy

Infrastructure

Access: Retortillo and Alameda are on sealed roads, with only a 4.1 kilometre road deviation being required at Retortillo and the upgrade (widening and tarring) of 6.4 kilometres of an existing road necessary at Alameda.

Power: As a heap leach, only 9Mw of power is needed, 3.7, 2.1 and 3.2Mw at Retortillo, Zona 7 and Alameda, respectively. This will come from the grid at US\$0.10/kwh, and will need a 13km 45kv powerline to Alameda.

Water: will be available from nearby rivers, on-site from pit dewatering bores and rain / run-off collection systems. The water balance will change from being negative in early years, to positive in later years where discharge will be required. Contact water (process and mine water requiring pre-discharge treatment) will be neutralised in Water Treatment Plants at Retortillo and Alameda prior to any required discharge.

Staffing: Given the project's proximity to the city of Salamanca (~70 km to the northeast of Retortillo) and local towns and villages, on-site accommodation facilities are not required. An on-site sulphuric acid plant is also not required for the project as sulphuric acid is readily available from two in-country sources at a cost of US\$124 per tonne delivered to site.

Permitting

Salamanca in the advanced stage of permitting and has received all mining permits for Retortillo and two of four permits relating to the processing plant. The two outstanding permits are the locally issued Urbanism Licence relating to land use and the Construction Authorisation from the Federal Ministry of Industry, Energy and Tourism. A co-operation agreement with the relevant municipalities supporting the grant of the Urbanism Licence has been signed and preparation of the documentation for the Construction Authorisation is advanced. Both approvals are expected to be granted in advance of the expected commencement of site works in mid-2016.

Alameda and Zona 7 must be permitted separately from Retortillo from a mining perspective, though the primary shared processing plant at Retortillo need only be permitted once. Furthermore, much of the preparation for the initial Retortillo permits can be leveraged in permitting Alameda and Zona 7. As of March 2016, the Environmental Scoping Document (ESD), a precursor to the ESIA, has been forwarded to the Ministry of Environment for review and comment, followed by a compulsory two-month consultation period. All key documentation associated with the Initial Authorisation of the processing facility as a radioactive facility ('the Radioactive Facility licence') has been prepared and will be submitted with the ESIA once the ESD consultation period has been completed. Preparation of the core documents to start the permitting of Zona 7 has commenced with submission expected in 4Q15. With precedent already in place for the Mining Licence and EIA at Retortillo, and additional mining centres at Zona 7 and Alameda not having full SX plants, subsequent permits are both de-risked and off critical path.

Management

Non-Executive Chairman: Ian Middlemas – is a Chartered Accountant with >30 years corporate, financial and management experience. Previously Chairman of Mantra Resources, an African uranium development company. He is a director of a number of other publicly listed companies.

Managing Director: Paul Atherley – is a mining engineer from Imperial College London. He served as Executive Director of the investment banking group of HSBC Australia where and advised on and completed acquisitions and financings of resource projects in Australia, South East Asia, Africa and Western Europe. He was previously Managing Director of ASX/AIM listed Leyshon Resources Ltd, and was responsible for the exploration, development and successful sale of the Zheng Guang Gold-Zinc Project in Northern China.

GM Ops: Francisco Bellón – is a Mining Engineer (MSc) with 18+ years of experience in operational and project management roles. Previous experience includes senior roles with TSX-listed Rio Narcea Gold Mines. Mr. Bellón was involved in commissioning and production at El

Valle-Boinás / Carlés (OP and UG-copper mines in northern Spain), Aguablanca (OP Ni-Cu mine in southern Spain) and Tasiast (OP gold mine in Mauritania). He also served as Head of Mining at Duro Felguera, a large Spanish engineering firm, where he managed large scale mining operations in West Africa and South America in excess of US\$1B.

Senior VP Corporate: Javier Colilla – has over 25 years of experience in the mining sector commencing as the Managing Director of an international drilling company in the early 1980's, and subsequently working for Anglo American as GM of their Spanish subsidiaries. Mr. Colilla served as VP Business Development, CFO and SVP Corporate of Rio Narcea Gold Mines. He was involved in all aspects of commercial, legal and JV management, permitting, stakeholder engagement, government liaison and project financing for a number of mining operations including El Valle-Boinás/Carlés, Aguablanca and Tasiast.

Commercial Manager: Hugo Schumann – worked as a management consultant before moving into mining, initially as part of a London investing team focused on early stage ventures. He has undertaken corporate development for several mining and energy companies and has >10 years' experience in financing and development of mining and energy projects. He holds an MBA from INSEAD and is a CFA Charterholder.

CFO and Company Secretary: Dylan Browne – is a Chartered Accountant and Chartered Secretary who commenced his career at a large international accounting firm and has since worked in the corporate office of a number of listed companies that operate in the resources sector.

Non-Executive Deputy Chairman: James Ross – is a geologist with experience including Chairman and Executive Director of Tanganyika Gold Limited from 1996 to 2000, and Executive Director of Renewable Energy Corporation Limited from 2000 to 2001. He has considerable international experience in exploration and mining, particularly in developing countries and holds an honours degree in Geology at UWA and a PhD in Economic Geology from UC Berkeley.

Non-Executive Director: Robert Behets – Mr. Behets is a geologist with >24 years of experience in exploration and mining. Most recently, he was instrumental in the development of Mantra Resources in Tanzania until its A\$1bn acquisition by ARMZ in 2011. Prior to this, he held various management positions with WMC Resources.

Corporate structure and history

Berkeley was originally listed in Australia, acquiring initial Spanish assets in 3Q05 for a €3.0m earn-in. Salamanca properties were two of the six licences vended in, and subsequently became the core asset. In 1Q07, A\$23m was raised to fund drilling. As feasibility studies continued, Polo Resources took an A\$7m raise in 2Q09 alongside an A\$5m rights issue, with Stephen Dattels joining as an NED, although this was sold and Stephen left in 3Q09. A 1Q11 placing raised A\$55m to fund drilling and feasibility on Salamanca, but also acquisition of asset in JV with Enusa which was subsequently abandoned. Ian Middlemas and Robert Behets joined the company in 2012, including participating in an equity placing for 5m shares at A\$0.30/sh with a free option A\$0.45/sh exercisable until 2Q16. A royalty that was initially granted to vendors of 3% over some properties was restructured to 1% over all future properties in 4Q09, and acquired by royalty group Anglo Pacific in 1Q10.

EU security of supply and coverage rates

The EU is a major consumer of nuclear fuels, accounting for approximately 30% of global uranium demand. There are 131 commercial nuclear power reactors operating in the EU, located in 14 Member States and managed by 18 nuclear utilities. Security of supply has become a major concern for European utilities who rely on imports for more than 95% of their uranium supply.

There is only one small uranium mine in operation in Europe, being the Rožná underground mine in Czech Republic. Euratom, in its Security of Supply report from July 2015, has ranked “*lack of investment in new mines*” as the number one risk facing European utilities – evidenced by the fact that major importers include Niger and Kazakhstan. According to Euratom, supply of natural uranium is fully guaranteed from 2014 to 2018 with a contractual coverage rate of over 90%. However, in the long term, the uranium coverage rate falls to just above 70% from 2019 to 2020 and drops sharply to 40% for the period 2020-21.

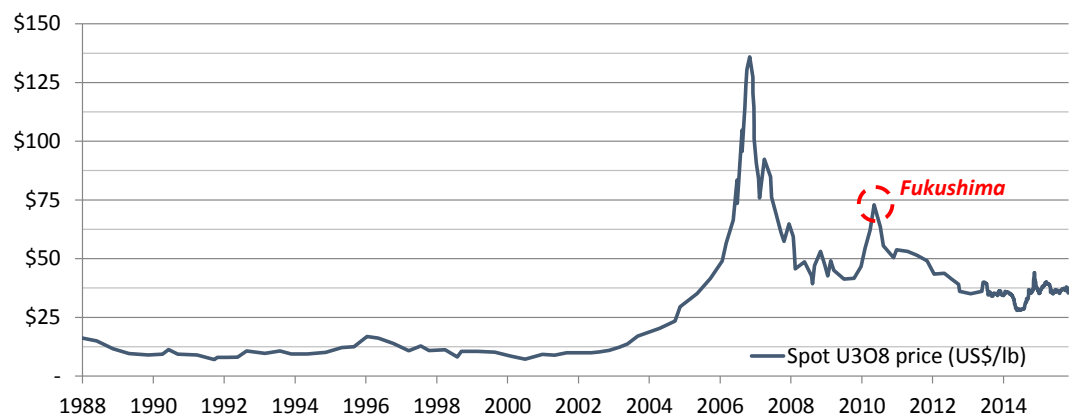
We believe Berkeley is well positioned to enter the market at a time when forward covering in Europe is low and from a supply position within Spain where security of supply is becoming an increasing concern to utilities.

Uranium market

Although the production of nuclear energy has faced headwinds in the wake of the Fukushima Daiichi nuclear disaster, it remains a highly efficient means of power generation in an environment of increasing concern over carbon emission levels. There are two primary sources of uranium: mine production and secondary supply coming from already mined material.

Secondary supply includes tailings re-enrichment, ex-military weapons-grade uranium and civil stockpiles and accounted for roughly 9% of uranium supply in 2013. Military-grade plutonium can be blended with uranium oxide to form mixed oxide fuel (MOX) and thus be used as a substitute fuel for uranium in civil nuclear power generators. Highly enriched uranium in military stockpiles amounts to ~1500t or approximately seven years of world mine production while military grade plutonium stockpiles would be equivalent to a year’s world uranium production.

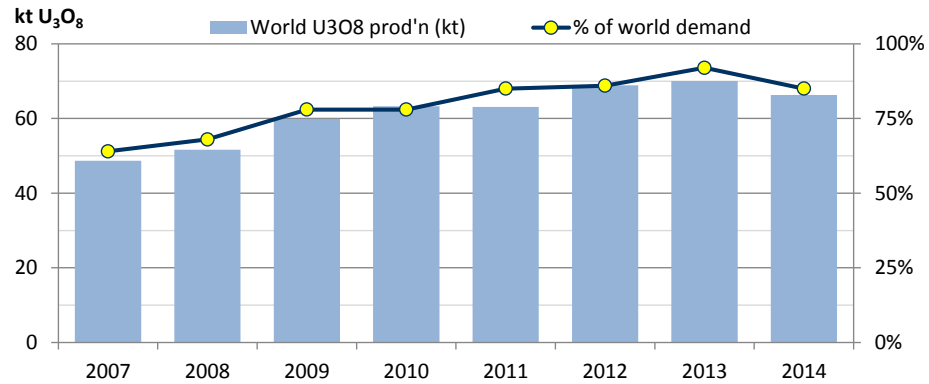
Figure 17. U₃O₈ 15 year price history



Source: Bloomberg

Spot uranium prices elevated significantly from 2005 to 2011, moving above \$100/lb U₃O₈ on anticipation of supply shortages given rising energy prices. Global mine production also increased steadily over this period contributing with Fukushima to a retrenchment in prices to the current \$35.75 spot price. However, price fundamentals are more attractive than implied by the spot prices as most uranium is supplied under long-term contracts and the prices in new contracts have typically reflected a premium of more than \$10/lb above spot.

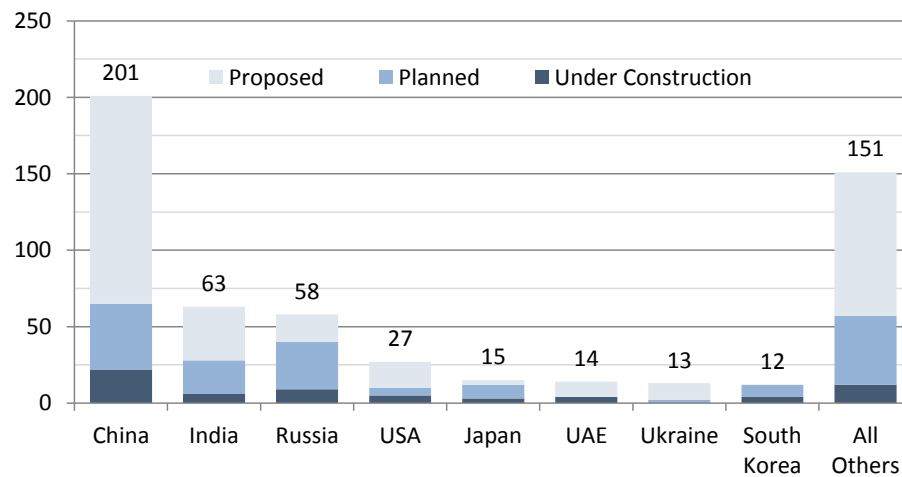
Figure 18. World U₃O₈ production



Source: World Nuclear Association

Current operating nuclear capacity provides a solid base of demand for uranium. There are currently 438 operating reactors worldwide generating annual demand of 78,875t (174mlbs) of U₃O₈ annually. The high capex, low opex nature of nuclear reactors translates to long operating lives and thus generates relatively predictable demand for uranium as compared to other commodities. The majority of long-term demand forecasts are based primarily on installed capacity with new reactors providing further upside offset by increases in reactor efficiency.

Figure 19. Reactors under construction, planned and proposed



Source: World Nuclear Association

In addition, worldwide reactor numbers are expected to grow given growing energy usage and increased concern over carbon emissions. Forecasts by the International Energy Agency, a branch of the OECD, predicts world energy demand will grow by 37% to 2040 with most growth in non-OECD countries. The IEA has noted that nuclear power is the largest source of low-carbon electricity in OECD countries and the second largest globally. Corroborating the previous, the number of nuclear power stations is growing with 65 reactors under construction worldwide with a further 165 planned and 324 proposed. Based on reactors currently in construction, U₃O₈ demand would expand by ~18% of 2015 levels while the World Nuclear Association’s 2013 reference scenario forecasts a 31% increase in uranium demand from 2013 – 2023 (based on a 36% increase in reactor capacity) and a further 25.6% increase in demand from 2020 to 2030.

Figure 20. Potential additional uranium demand based on reactor pipeline

	Current Operating	Under Construction	Planned	Proposed
Capacity (MWe)	381,600	68,408	185,504	367,220
2015 Uranium Eq. required (t)	66,883			
Uranium Eq. required / Mwe (t)			0.18	
U ₃ O ₈ per Uranium Eq.			1.18	
U ₃ O ₈ required (t)	78,875	14,140	38,343	75,903
U ₃ O ₈ required (Mlbs)	173.9	31.2	84.5	167.3
% of current U ₃ O ₈ demand	100%	18%	49%	96%

Source: World Nuclear Association

Figure 21. Reactors under construction, planned and proposed

Country	Nuclear Electricity Generation 2014		Reactors Operable		Reactors Under Construction		Reactors Planned		Reactors Proposed		Uranium Required 2015 tonnes U
	bn kWh	% of total energy gen.	No.	MWe net	No.	MWe gross	No.	MWe gross	No.	MWe gross	
Argentina	5	4%	3	1,627	1	27	2	1,950	2	1,300	215
Armenia	2	31%	1	376	-	-	1	1,060	-	-	88
Bangladesh	-	-	-	-	-	-	2	2,400	-	-	-
Belarus	-	-	-	-	2	2,388	-	-	2	2,400	-
Belgium	32	48%	7	5,943	-	-	-	-	-	-	1,017
Brazil	15	3%	2	1,901	1	1,405	-	-	4	4,000	326
Bulgaria	15	32%	2	1,926	-	-	1	950	-	-	324
Canada	99	17%	19	13,553	-	-	2	1,500	3	3,800	1,784
Chile	-	-	-	-	-	-	-	-	4	4,400	-
China	124	2%	29	26,239	22	24,094	43	49,970	136	153,000	8,161
Czech Republic	29	36%	6	3,904	-	-	2	2,400	1	1,200	566
Egypt	-	-	-	-	-	-	2	2,400	2	2,400	-
Finland	23	35%	4	2,741	1	1,700	1	1,200	1	1,500	751
France	418	77%	58	63,130	1	1,750	-	-	1	1,750	9,230
Germany	92	16%	8	10,728	-	-	-	-	-	-	1,889
Hungary	15	54%	4	1,889	-	-	2	2,400	-	-	357
India	33	4%	21	5,302	6	4,300	22	21,300	35	40,000	1,579
Indonesia	-	-	-	-	-	-	1	30	4	4,000	-
Iran	4	2%	1	915	-	-	2	2,000	7	6,300	176
Israel	-	-	-	-	-	-	-	-	1	1,200	-
Italy	-	-	-	-	-	-	-	-	-	-	-
Japan	-	-	43	40,480	3	3,036	9	12,947	3	4,145	2,549
Jordan	-	-	-	-	-	-	2	2,000	-	-	-
Kazakhstan	-	-	-	-	-	-	2	600	2	600	-
Korea DPR (North)	-	-	-	-	-	-	-	-	1	950	-
Korea RO (South)	149	30%	24	21,677	4	5,600	8	11,600	-	-	5,022
Lithuania	-	-	-	-	-	-	1	1,350	-	-	-
Malaysia	-	-	-	-	-	-	-	-	2	2,000	-
Mexico	9	6%	2	1,600	-	-	-	-	2	2,000	270
Netherlands	4	4%	1	485	-	-	-	-	1	1,000	103
Pakistan	5	4%	3	725	2	680	2	2,300	-	-	101
Poland	-	-	-	-	-	-	6	6,000	-	-	-
Romania	11	19%	2	1,310	-	-	2	1,440	1	655	179
Russia	169	19%	34	25,264	9	7,968	31	33,264	18	16,000	4,206
Saudi Arabia	-	-	-	-	-	-	-	-	16	17,000	-
Slovakia	14	57%	4	1,816	2	942	-	-	1	1,200	466
Slovenia	6	37%	1	696	-	-	-	-	1	1,000	137
South Africa	15	6%	2	1,830	-	-	-	-	8	9,600	305
Spain	55	20%	7	7,002	-	-	-	-	-	-	1,274
Sweden	62	42%	9	8849	-	-	-	-	-	-	1,516
Switzerland	27	38%	5	3,333	-	-	-	-	3	4,000	521
Thailand	-	-	-	-	-	-	-	-	5	5,000	-
Turkey	-	-	-	-	-	-	4	4,800	4	4,500	-
Ukraine	83	49%	15	13,107	-	-	2	1,900	11	12,000	2,366
UAE	-	-	-	-	4	5,600	-	-	10	14,400	-
United Kingdom	58	17%	16	9,373	-	-	4	6,680	9	11,220	1,738
USA	799	20%	99	98,952	5	6,218	5	6,263	17	26,000	18,692
Vietnam	-	-	-	-	-	-	4	4,800	6	6,700	-
WORLD*	2,411	12%	438	381,600	65	68,408	165	185,504	324	367,220	66,883

Source: World Nuclear Association, *incl 6 operating reactors and 2 reactors under construction in Taiwan

Ticker: BKY LN / BKY AU	Share price	27p/sh				Stock rating:	BUY		Implied return:		156%
Analyst: Brock Salier	Market cap	£47.8m				Target price:	70p/sh		Market P/NAV		0.20x
Year to Dec											
Ratio analysis	FY14A	FY15A	FY16E	FY17E	FY18E	Year to Dec					
Average shares outstanding (n)	180.4	180.4	324.8	324.8	324.8	Commodity price					
Adj. EPS (\$/sh)	(0.04)	(0.03)	(0.02)	(0.03)	0.05	[Uranium Price] (\$/lb)					
CFPS before w/c (\$/sh)	(3.8)	(2.9)	(2.0)	(0.9)	8.6	37 40 55 55 55					
EV (\$m)	2,436.2	32.2	122.9	122.9	122.9	USD / AUD f-x rate (x)					
FCF margin (%)	-	-	-	-	-	0.94 0.86 0.70 0.70 0.70					
PER (x)	-	-	-	-	341.4	Other data					
P/CF (x)	-	-	-	-	215.7	Basic shares (m)					
EV/EBITDA (x)	-	-	-	-	4.1	180.4 12M high: 29p					
ROE (%)	(21%)	(28%)	(7%)	(11%)	17%	Fully diluted shares (m)					
Income statement (yr to Dec)						324.8 12M low: 1A\$ 1.25					
Revenue (A\$m)	1.2	0.6	-	-	97.5	Resource / Reserve					
Cost of sales (A\$m)	-	-	-	-	(35.8)	Tonnes (ppm) Total LOM EV/lb					
D&A (A\$m)	-	-	-	-	(5.2)	Resources (M&I) 53.6 Mt 528 57 Mlb \$1.11					
Gross profit (A\$m)	1.2	0.6	-	-	56.5	Resources (M&I) 84.0 Mt 487 85 Mlb \$0.74					
Exploration (A\$m)	(6.9)	(6.7)	(7.7)	(2.0)	(2.0)	Production (100% basis)					
Admin expense (A\$m)	(1.0)	(0.9)	(1.5)	(3.0)	(4.0)	FY14A FY15A FY16E FY17E FY18E					
Net interest (A\$m)	-	-	0.1	(8.5)	(9.2)	[Uranium Price]					
Other (A\$m)	(0.6)	(0.9)	0.1	0.0	(2.6)	37 40 55 55 55					
Tax (A\$m)	0.0	-	-	-	(13.5)	[Production (000lb U3O8)]					
Net income	(7.4)	(7.9)	(9.0)	(13.5)	25.2	C1 cash cost (ex royalties, \$/lb)*					
EBITDA (A\$m)	(7.6)	(7.9)	(9.3)	(5.0)	42.6	FOB cash costs (inc royalties, \$/lb)**					
Cash flow (yr to Dec)	FY14A	FY15A	FY16E	FY17E	FY18E	- - - - 20					
Net (loss) income (A\$m):	(7.4)	(7.9)	(9.0)	(13.5)	25.2	- - - - 22					
Non-cash adjustments (A\$m)	-	-	-	-	5.2	<i>[*C1=site mining costs; **FOB = C1 + road haul to port + port fees]</i>					
Working capital movements (A\$m)	-	-	-	(14.9)	(5.8)						
Net interest & other (A\$m)	0.1	1.0	(0.1)	9.5	9.5						
Cash flow from operations (A\$m)	(7.3)	(6.8)	(9.1)	(19.0)	34.1						
PP&E (A\$m)	(0.1)	(0.1)	-	(116.4)	(79.2)						
Exploration (A\$m)	(0.1)	(0.0)	-	-	-						
Other (A\$m)	-	-	-	-	-						
Cash flow from investing (A\$m)	(0.2)	(0.1)	(0.0)	(116.4)	(79.2)						
Interest received / (paid) (A\$m)	0.7	0.6	-	9.5	9.5						
Share issue (A\$m)	(0.0)	-	114.4	-	-						
Debt drawn down (A\$m)	-	-	118.7	-	-						
Debt repaid (A\$m)	-	-	-	-	-						
Cash flow from financing (A\$m)	(0.0)	-	233.1	(9.5)	(9.5)						
Forex (A\$m)	0.0	0.0	0.0	-	-						
Net change in cash (A\$m)	(7.5)	(6.9)	224.0	(144.8)	(54.7)						
Cash at end of period (A\$m)	20.2	13.4	237.4	92.6	37.9						
Balance sheet (yr to Dec)											
Cash (A\$m)	20.2	13.4	237.4	92.6	37.9						
AR (A\$m)	0.5	0.5	0.5	8.3	8.0						
Inventories (A\$m)	-	-	-	7.1	16.0						
PPE (A\$m)	1.8	1.7	1.8	118.2	192.2						
Other (A\$m)	14.4	14.3	14.3	14.3	14.3						
Total assets (A\$m)	37.0	29.9	254.1	240.5	268.5						
AP (A\$m)	1.1	1.0	1.1	1.1	3.9						
Debt (A\$m)	-	-	118.7	118.7	118.7						
Deferred tax (A\$m)	-	-	-	-	-						
Other (A\$m)	0.3	0.3	0.3	0.3	0.3						
Total liabilities (A\$m)	1.4	1.3	120.2	120.2	123.0						
Shareholders equity (A\$m)	35.6	28.5	133.9	120.4	145.6						
Retained earnings (A\$m)	-	-	-	-	-						
Liabilities + equity (A\$m)	37.0	29.9	254.1	240.5	268.5						
Estimate share valuation											
		O/ship	USD	NAVx	USD	GBP/sh					
Salamanca	100%	610	0.50	304.8	62						
Cash	-	9.4	0.50	4.7	1						
Debt	-	-	0.50	-	-						
Equity raised	-	68.0	0.50	34.0	7						
Cash from options	-	3.0	0.50	1.5	0						
SG&A and central	-	(20.8)	0.50	(10.4)	(2)						
Valuation (fd)		669.1			68						
Valuation sensitivities (A\$/sh) to uranium price:											
To discount rate		US\$35/lb	US\$45/lb	US\$55/lb	US\$65/lb	US\$75/lb					
10% discount	20	39	58	77	96						
8% discount	24	46	68	90	111						
6% discount	28	54	79	105	130						
To NAVx @ 8%		US\$30/lb	US\$40/lb	US\$55/lb	US\$65/lb	US\$70/lb					
0.30xNAV	7	21	41	54	60						
0.50xNAV	12	35	68	90	100						
0.70xNAV	17	49	95	125	141						
NPV sensitivity (US\$m) of Salamanca to uranium price:											
To discount rate		US\$30/lb	US\$40/lb	US\$55/lb	US\$65/lb	US\$70/lb					
10% discount	74	253	521	698	786						
8% discount	98	304	610	812	913						
6% discount	127	364	716	950	1,066						

Source: GMP estimates

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