

Montezuma Mining

October 2011

GICS Sub-Industry: Materials– Metals and Mining

Research Overview

Business Description

Montezuma Mining Company Limited [ASX:MZM] is a Western Australian based exploration company with a portfolio of early stage mineral assets focusing on manganese, copper, and gold.

Event

- **Scoping Study values Yanneri Ridge at up to \$241M:** Independent study completed by Engenium on MZM's JORC Yanneri Ridge Inferred Resource of 64.7 Mt @11.2% Mn estimated the NPV of development of a mine producing between 0.5 to 1 Mtpa at \$79M to \$241M, for a 10 year mine life supported by existing resources..
- **Additional widespread manganese mineralisation in surrounding Butcherbird province:** Exploration in 2Q11 comprised of 110 RC drill holes for a total of 3,233m over several new manganese targets at locations surrounding the existing Yanneri Ridge Resource. Best results include 20 holes of 0-20m with manganese concentration of 12-20%, strong indication of further resource upgrades.
- **4Q11 RC drilling commenced for high grade copper:** Results are pending from drilling of 25 holes for 3,500m, spread over priority copper targets along a 6km striking corridor in Butcherbird. Previous reconnaissance drilling in 2010 along this corridor confirmed significant copper sulphide mineralisation, with best results including 4m @ 6.97% Cu and 4m @ 1.52% Cu.
- **Peak Hill gold resource confirmed 500k ounces:** Third party Snowden estimated JORC indicated gold resource of 430k ounces and inferred resource of 84k ounces.
- **\$2.88M cash from MIN in-specie distribution:** Mineral Resources' acquisition of Montezuma's holding in Auvex Resources added \$2.88M in 3Q11 to previous cash holdings of \$3.40M as at 30 June 2011.

ASX : MZM

Last traded	A\$	0.30
Market Cap	A\$m	20.2
Nº of Shares	m	67.2
2011A EPS	¢	(8.1)
2011 PE	x	-
2011 EV/EBITDA	x	-
DPS 2011A	¢	-
Div Yield 2011A	%	-
Revenue 2011A	m	1.4
EBITDA 2011A	m	-4.2
NPAT 2011A	m	-3.6

Share Price | 1 Year



Investor Queries

Justin Brown
Managing Director

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COMPANY DESCRIPTION

Montezuma Mining Company Limited (ASX:MZM) is a minerals exploration company listed on the Australian Securities Exchange on 22 November 2006. Originally founded to explore tenements in the Pilbara region, MZM has successfully discovered and divested a series of greenfield iron ore and gold assets. The company is currently focused on developing its 100% owned Butcherbird Manganese and Copper Project in Western Australia to production stage, while continuing drilling activities to expand the gold resource in the Peak Hill Project.

BOARD OF DIRECTORS & MANAGEMENT TEAM

Seamus Cornelius | Chairman

Mr. Cornelius brings 21 years of corporate experience in both legal and commercial negotiations. From 2000 to 2010, Mr. Cornelius was an international partner with Allens Arthur Robinson based in Shanghai and Beijing, specialised in dealing with cross border investments, particularly in the energy and resource sectors. Mr. Cornelius has for many years advised large international companies on their investments in China and in recent years advised Chinese state owned entities on their investments in natural resource projects outside China, including Australia.

Justin Brown | Managing Director

Justin Brown is a geologist with extensive experience in mineral exploration in Australia and New Zealand. He has a strong technical background with experience in the full spectrum of mineral exploration and mining from grass roots target generation through to resource mining and mine production. Justin's successful career in the mining industry culminated in a position managing exploration for a large multinational company in the Leonora, Edjudina and Marvel Loch regions of Western Australia. Since leaving mineral exploration to pursue other business interests, Justin has founded and operated a successful internet services consultancy, developing and enhancing his management expertise which he now brings to the Company.

John Ribbons | Non-Executive Director & Company Secretary

Mr Ribbons is an accountant who has worked within the resources industry for over fifteen years in the capacity of company accountant, group financial controller or company secretary. Mr Ribbons has considerable site based experience with operating mines and has also been involved with the listing of several exploration companies on ASX. Mr Ribbons has experience in capital raising, ASX and TSX compliance and regulatory requirements.

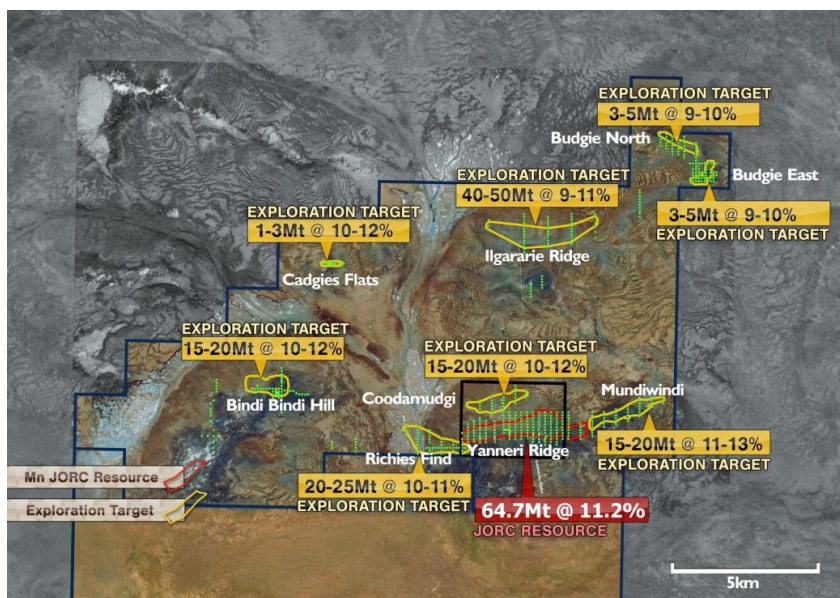
MAJOR SHAREHOLDERS

MZM - Top 20 Shareholders as at 27 September 2011.

		SHARES HELD	ISSUED CAPITAL
1.	JP Morgan Nominees Australia Ltd <Cash Income A/C>	6,659,596	9.90%
2.	South Boulder Mines Limited	5,382,500	8.00%
3.	Alpha Boxer Ltd	4,002,500	5.95%
4.	Duketon Consolidated Ltd	3,050,000	4.54%
5.	Alpha Boxer Ltd	2,543,334	3.78%
6.	Dragon Gas Ltd <No 2 A/C>	2,522,791	3.75%
7.	Atoc Inc	2,500,000	3.72%
8.	Avania Nominees Pty Ltd	1,792,567	2.67%
9.	Ranguta Ltd	1,758,000	2.61%
10.	Vetter, Anthony John	1,355,000	2.02%
11.	Mandies Meats Pty Ltd	1,351,796	2.01%
12.	Kongming Investments Ltd	1,297,018	1.93%
13.	Aradia Ventures Pty Ltd	1,030,000	1.53%
14.	Aradia Ventures Pty Ltd <J&A Brown Fam A/C>	1,007,500	1.50%
15.	Grammer, Dianne Claire	1,000,000	1.49%
16.	Actdine Pty Ltd <Cunningham S/F A/C>	1,000,000	1.49%
17.	Dragon Gas Ltd	1,000,000	1.49%
18.	Sino West Assets Ltd	956,637	1.42%
19.	Cunningham, Peter Thomas	950,000	1.41%
20.	O'Meara, Denis William	699,071	1.04%
TOTAL FOR TOP 20 SHAREHOLDERS:		41,858,310	62.25%

MANGANESE EXPLORER TURNING TO PRODUCER

MZM manganese drilling campaigns over its 100% owned Butcherbird tenements, located 120km south of Newman, WA, have to date uncovered significant tonnage potential of over 100 million tonnes of manganese (Mn) supporting a long mine life of 10-20 years. In January 2011, appraiser Snowden Mining Industry Consultants (“Snowden”) estimated 64.7 Mt @11.2% Mn of JORC inferred mineral resource at 8% Mn cutoff, including 48.8 Mt at 10% cutoff. The inferred resource is contained within the Yanneri Ridge deposit, one of nine deposit areas identified through EM survey in the Butcherbird region shown in the map below.



SOURCE: COMPANY DATA

While no JORC-compliant resource estimate has been performed for the remaining eight deposit areas, findings from several RC (reverse circulation) drilling campaigns indicated widespread manganese mineralisation in line with the results of RC drilling previously conducted at the Yanneri Ridge resource (uncovering 10-15% Mn at depths of no more than 30m). Management believes the total tonnage potential at the Butcherbird project to be between 110 Mt to 150 Mt, suggesting that MZM has significant resource upgrades in the pipeline.

Feasible low cost beneficiation

Manganese ore in MZM’s mineral resource is considered relatively low-grade compared to commercial standards of 40-55% Mn. By way of comparison, Consolidated Minerals’ Woodie Woodie mine, globally considered a supplier of high-grade manganese, boasts reserves of 13.3 Mt at 40.5% Mn as at 30 June 2010, while OM Holdings’ Bootu Creek production successfully beneficiates a lower-grade resource base of approximately 20% Mn to commercial grade. Despite the additional beneficiation requirements, Bootu Creek’s unit production cost (\$3.77/dmtu for 2Q11) is in line with the high-grade Woodie Woodie (\$3.78/dmtu for 2Q11), indicating that MZM’s low grade resource may not be a commercial impediment.

In July 2011, MZM conducted a metallurgical study on samples from the Yanneri resource. The mineralisation occurs in shallow flat lying zones with the ore occurring as discrete high grade bands interbedded with clay waste. The study found that this style of mineralisation is amenable to low cost beneficiation to grades of up to 36% via Dense Media Separation (“DMS”) to produce a lump product, with yields of 15-35%. The study also found that further treatment of the DMS lumps, through crushing to <1mm and wet table separation, improved grades to up to 38.6% Mn.

Transport and power

Located 120km south of mining town Newman, the Butcherbird Project straddles the Great North Highway and the Goldfields Gas Pipeline substation. The distance to the nearest seaborne export terminal, Port Headland is 580km via highway from Newman.

Scoping Study indicates strong project economics for Yanneri Ridge development

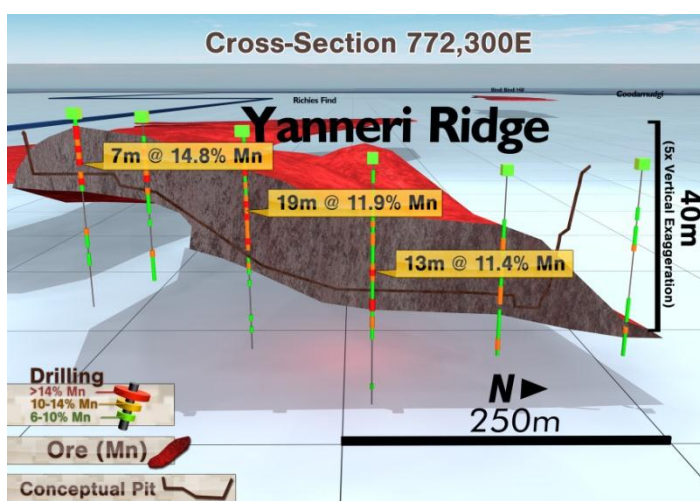
Initial study on the potential development of the Yanneri Ridge resource to a producing mine by independent consultancy Engenium estimated the following return profile.

Production	Capex (\$M)	Sales (Mt)	NPV (\$M)	IRR (%)
10 YEAR MINE LIFE				
0.5 Mtpa	127	5.0	\$79M	31%
1.0 Mtpa	163	10.0	\$241M	59%
20 YEAR MINE LIFE				
0.5 Mtpa	127	10.0	\$148M	33%
1.0 Mtpa	163	20.0	\$376M	59%

SOURCE: COMPANY DATA

Long-term manganese price is assumed to be US\$5.4/dmtu at long term exchange rate of \$0.8 USD/AUD, in line with prices achieved by current producers Consolidated Minerals and OM Holdings. The study assumed beneficiation yield of 20% @ 36% Mn based on the results of the previously completed DMS study. The existing inferred resource of 64.7 Mt corresponds to extractable Mn product of 12.8 Mt, which would support a 10 year mine life at production rate of 1.0 Mtpa. Based on RC drilling results, management is optimistic that future resource upgrades will add to the potential product inventory to extend the mine life to up to 20 years.

The geological setting is in favour of the project economics as the manganese mineralisation occurs in shallow flat lying zones (<20m below surface) extractable via conventional open pit mining, with ore occurring as discrete high grade bands interbedded with clay waste.



SOURCE: COMPANY DATA

Financing

Management has publicly stated their ambitions to transition to a producing, cash flow generating resource house, identifying the Yanneri Ridge as the most likely candidate for maiden production from as early as the FY10 AGM in

November 2010. However, no announcements with respect to plans for financing the development of a manganese mine have been made. Given MZM's market capitalisation of just under \$20M, MZM faces significant challenges to raise adequate capital. Other junior explorers transitioning to producer status have successfully raised finance through joint venture, accepting equity investment from well-capitalised customers, or finding the backing of a cornerstone investor.

Manganese outlook

Manganese is a critical element in steel production, for which no suitable substitute has yet been found. Around 90% of manganese ore globally is processed into ferroalloy (60-80% Mn mixed with carbon or silicon) for steel production, while the remaining 10% is used for batteries and other chemicals. Manganese is a naturally abundant element, however, global high-grade manganese production is dominated by a handful of players. Australia has only three established manganese mines: Woodie Woodie/Consmine, GEMCO/BHP, and Bootu Creek/OM Holdings, producing 12% of the world's manganese ore.¹ Management is bullish on the future supply and demand dynamics of manganese if current steel production trends continue.

Peer comparison

For quarter ended 30 June 2011	Woodie Woodie/ Consmine (private)	Bootu Creek/ OM Holdings (ASX:OMH)	Butcherbird/ Montezuma (ASX:MZM)
Reserves	13.3 Mt @ 40.5% Mn	21.5 Mt @ 21% Mn	0 Mt
Resources	20.2 Mt @ 40.0% Mn	32.5 Mt @ 22.6% Mn	64.7 Mt @ 11.2% Mn
Production	0.79 Mt	0.27 Mt	-
Sales/shipment	0.89 Mt	0.26 Mt	-
Average sale price	A\$4.93/dmtu	US\$5.30/dmtu	-
Unit cash cost	A\$3.78/dmtu	A\$3.77/dmtu	-

SOURCE: CONSMINE, OM HOLDINGS, MONTEZUMA COMPANY DATA, MICROEQUITIES ESTIMATES

OTHER EXPLORATION PROJECTS

Since listing in 2006, MZM has established a successful track record of developing greenfield and brownfield exploration projects in iron ore, gold and copper within and around the Pilbara region. MZM profits from divesting projects in return for cash, royalties on subsequent production, or shares in the acquiring company, and reinvests the capital into subsequent exploration projects. Two notable current projects are the Butcherbird copper and the Peak Hill gold projects.

Butcherbird Copper (100% owned)

Reconnaissance drilling in 2010 uncovered significant copper sulphide mineralisation along a 6km corridor, with grades ranging from 0.82% to 6.97% Cu. Subsequent EM survey, aeromagnetic data and ground IP survey by August 2011 delivered consistently positive indications that the zone contains multiple potential high-grade copper/cobalt deposits. At the time of writing, MZM is in the process of completing an RC drilling program comprising ~25 holes for 3,500m over multiple priority copper/cobalt targets.

Peak Hill Gold (85-100% owned)

Peak Hill is an existing gold system, which has produced more than 920,000 ounces to date. MZM acquired the project from owners Barrick/Rio Tinto in July 2007, which then became the company's flagship project. Although subsequent

¹ Australian Atlas of Minerals Resources, Mines & Processing Centers 2009.

manganese and copper discoveries at Butcherbird redirected MZM's focus, management maintains that Peak Hill remains a core asset with continuing drilling targets. In June 2011, Snowden estimated 514,000 ounces of gold resources at from average grades of 1.4-1.5 g/t, comprising of 430k ounces indicated and 84k ounces inferred.

LISTED COMPANY SHAREHOLDINGS

As at 30 June 2011, MZM holds shares in four other listed explorers worth \$3.6m: 7.5m shares in Auvex Resources, 3m shares in Buxton Resources, 1.5m shares in Lithex Resources, and 2m shares in Exterra Resources. The shares were acquired through divestment of MZM's exploration projects in return for scrip. Auvex was acquired by Mineral Resources (ASX:MIN) via scheme of arrangement, and in August 2011 MZM converted the in-specie distribution of MIN shares into \$2.88M of cash, to add to the \$3.4m of cash reserves disclosed in the 30 June 2011 cash flow report. The remaining shares are valued at just under \$1M at the time of writing (closing prices of 19 October 2011), and are subject to various escrow agreements ending 4Q11 to 2013.

PORTFOLIO OF LISTED COMPANY INVESTMENTS AND NON-PRODUCTION GREENFIELD ASSETS:

“We have used a strategy of divestment of non-core assets to provide funding for our core activities. This has been quite successful, keeping our share structure tight and maximizing leverage for shareholders as our market capitalization increases. This strategy is likely to continue.”

MANAGEMENT Q&A



Justin Brown
Managing Director

What plans are in place to finance the development of the Butcherbird project into a producing mine? Has management identified potential joint venture partners or cornerstone investors?

We have had a number of discussions with various groups out of China, Korea and the Middle East who have expressed strong interest in staying abreast of our

progress. I think there is a critical mass that we need to achieve before we take the negotiations beyond preliminary discussions to maximize value to shareholders on any deal we do.

Now that we have the commercial studies underway, a Scoping Study in hand, and confidence in what type of product we are going to be able to produce as well as the likely size and cost base of the mine, we can start the process of more detailed negotiations on financing. Whilst we are flexible, the most likely outcome is to bring on a strategic partner who wants the product as an end user and has the capacity to fund the development of the project in return.

Please elaborate on existing infrastructure around the Butcherbird and Peak Hill projects in terms of ground transport, seaborne transport and power, and provide commentary on the feasibility of the facilities.

“Manganese demand is tied to the steel boom and as steel intensity increases in the world’s developing economies, manganese ore demand will increase in tandem with that of iron ore”.

The location of the Butcherbird Project has key infrastructure advantages in that it straddles the Great Northern Highway and is directly adjacent to a Goldfields Gas Pipeline substation. The former minimizes the capital and operational costs required to develop and maintain roads for ore transport and the latter may provide a cheap energy source to power the mine. The transport of ore will almost certainly be via truck to Port Hedland for export although in later years the port and rail infrastructure related to Oakajee may provide a cost effective alternative if that project goes ahead.

Whilst there is no production infrastructure at Peak Hill itself, there is an operational mill at the Fortnum Gold Mine approximately 70kms to the north of Peak Hill, with haul roads already in place that may provide a viable production option for the Company’s gold resources.

Given that Butcherbird has low-grade manganese resources, how much additional cost is the beneficiation to commercial grade anticipated to add to production cost per tonne, compared to existing high-grade reserves such as Woodie Woodie or GEMCO?

Whilst the in situ grade is comparatively low, the manganese is partitioned into high grade bands within weathered clay layers. The manganese is almost entirely contained in the more competent high grade bands meaning that simple

trommelling and washing is able to remove the clay, leaving a DMS plant head grade of around 24% Mn, comparable to many other sedimentary manganese deposits including the producing operation at Bootu Creek.

The geological setting also means that mineralization starts at surface and is flat lying, resulting in a very low strip ratios estimated at 1:1 or less and low mining costs. If you add all this up, our mining and processing costs are expected to be very competitive with other producers as confirmed by the independent Scoping Study completed this month.

How does Montezuma plan to secure customers for the Butcherbird manganese production? At which point in time during the development of the mine does Montezuma aim to sign sale contracts?

With the Scoping Study now complete, I am heading to China at the end of October to resume discussions with key groups who may wish to enter into sale agreements with us. In this scenario, we would look to enter into off-take agreements relatively early, however it would be closely tied to funding agreements for mine development capital. Alternatively, we are looking at other scenarios involving more conventional debt and equity funding in which case there would be no need to rush to sign sale agreements in the early stages and in fact there may be some advantage to delaying negotiations.

How do you anticipate the production cost per ounce of gold at Peak Hill/Durack to compare to leading low cost producers such as Newcrest or Barrick?

Given our core focus is on the development of the Butcherbird manganese deposits, we do not currently have any plans to commence production at Peak Hill, and hence we have not done the necessary studies to quantify the production costs. There are a number of scenarios for Peak Hill, which would move the project towards production including further exploration to expand the resource base and/or looking at regional consolidation options.

There are a number of nearby companies with gold resources that may not currently justify the construction of a processing facility, but which might if combined with additional resources such as those at Peak Hill. We are examining several possible scenarios, and would hope to reach a decision in the next couple of quarters on the best way to add value for shareholders.

What is Montezuma's outlook on the future demand and supply of manganese, copper and gold?

I think all are fairly positive but for different reasons: All steel requires on average about 1% manganese and there is no substitute. Consequently manganese demand is tied to the steel boom, and as steel intensity increases in the world's developing economies, manganese ore demand will increase in tandem with that of iron ore.

In terms of supply, most of the currently planned new supply is expected to come from the Kalahari region of South Africa, which hosts the bulk of the world's manganese oxide ores. However, South Africa has infrastructure issues with getting new material into the market, and the manganese supply competes with other commodities for access to this limited infrastructure. It remains to be seen how South Africa copes with this, but it seems likely that they will struggle to keep up with demand, which would create a supply demand dynamic that would favour higher prices going forward. Copper is similarly tied to economic growth in developing countries so you would have to argue that demand increases are to continue, with supply currently failing to keep pace.

Gold is different. Supply is relatively stable with demand largely grouped into industrial, investment and jewellery categories, but I think the real key is that as long as the economic turmoil and money printing continues in developed

nations, and as long as these nations fail to reign in sovereign debt, doubt and uncertainty is likely to continue with respect to traditional stores of value and in this environment gold demand should do well.

What plans are in place to convert Montezuma’s existing mineral resources into reserves?

We have just completed a Scoping study to investigate the commercial parameters around developing the Butcherbird manganese deposits, which returned very favourable results. On this basis, we plan to continue with a Feasibility study, which will ultimately convert the resources to reserves, likely based around production of 1 Mt per annum for an initial 10 year mine life and centred on the Yanneri Ridge deposit. Given the large tonnages at Butcherbird, as we move forward in this process we will also examine the possibility of increasing the production rates and/or the mine life.

Where does Montezuma’s portfolio of listed company investments and non-production greenfield assets fit in the company’s long terms strategy?

If you look at our history, we have used a strategy of divestment of non-core assets to provide funding for our core activities. This has been quite successful, keeping our share structure tight and maximizing leverage for shareholders as our market capitalization increases. This strategy is likely to continue.

FINANCIAL SUMMARY

INCOME STATEMENT			
Year to June	FY09	FY10	FY11
Revenue	2.1	7.9	1.4
Expenses	(1.8)	(2.1)	(5.6)
+ Depreciation & Amort	0.0	0.0	0.0
+ Net Interest Expense/(Income)	(0.1)	(0.1)	(0.3)
EBITDA	0.2	5.7	(4.5)
% Chg YoY		2488%	(179%)
% EBITDA Margin	10%	72%	(324%)
Depreciation & Amort	(0.0)	(0.0)	(0.0)
EBIT	0.2	5.7	(4.5)
% EBIT Margin	(1%)	(0%)	(1%)
Net Interest (Expense)/Income	0.1	0.1	0.3
Profit Before Tax	0.3	5.8	(4.2)
Tax	0.0	(0.8)	0.6
Net Profit	0.3	5.0	(3.6)

BALANCE SHEET			
Year to June	FY09	FY10	FY11
Cash & cash equivalents	2.2	6.1	3.4
Trade and other receivables	0.0	0.1	0.1
Financial assets at fair value	0.1	2.5	3.6
Total Current Assets	2.4	8.7	7.1
Receivables	0.6	0.6	0.6
Plant & equipment	0.0	0.0	0.0
Total Non-Current Assets	0.6	0.6	0.7
TOTAL ASSETS	3.0	9.3	7.8
Trade and other payables	0.4	0.6	0.4
Current tax liabilities	0.0	0.2	0.0
Total Current Liabilities	0.4	0.7	0.4
Deferred tax liabilities	0.0	0.6	0.0
Total Non-Current Liabilities	0.0	0.6	0.0
TOTAL LIABILITIES	0.4	1.3	0.4
NET ASSETS	2.6	7.9	7.4
Issued Capital	5.7	5.7	7.3
Reserves	0.5	0.7	2.1
Retained profits	(3.5)	1.6	(2.0)
TOTAL EQUITY	2.6	7.9	7.4

KEY RATIOS			
Year to June	FY09	FY10	FY11
Sales	2.1	7.9	1.4
% Chg YoY		270%	(83%)
Price/Sales	9.4x	2.5x	14.5x
EPS (cents)	0.8	11.0	(8.1)
% Chg YoY		1275%	(174%)
P/E	57.7x	4.0x	- x
Enterprise Value	17.9	14.1	16.8
EV/EBIT	87.1x	2.5x	- x
EV/EBITDA	81.5x	2.5x	- x
DPS	0.0	0.0	0.0
Dividend Yield	0.0	0.0	0.0
ROE	13%	63%	(49%)
Debt to Equity	0.0	0.0	0.0

CASH FLOW STATEMENT			
Year to June	FY09	FY10	FY11
Payments to suppliers	(0.3)	(0.3)	(0.6)
Interest received	0.1	0.1	0.3
Royalties on mining interests	0.0	0.4	0.1
Sale of mining interests	2.0	4.4	0.0
Expenditure on mining interests	(0.9)	(1.7)	(3.7)
Disposal of financial assets	0.0	1.0	0.0
Payments for financial assets	0.0	(0.1)	(0.2)
Income taxes paid	0.0	0.0	(0.2)
Cash from Operations	0.9	3.8	(4.2)
Payments for plant & equipment	(0.0)	(0.0)	(0.0)
Payments for tenement bonds	0.0	0.0	(0.0)
Cash from Investing	(0.0)	(0.0)	(0.1)
Issues of ordinary shares	0.0	0.0	1.6
Cash from Financing	0.0	0.0	1.6
Net Incr/(Dcr) in cash	0.9	3.8	(2.7)
Opening cash balance	1.4	2.2	6.1
Closing cash balance	2.2	6.1	3.4

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