

MOD RESOURCES (MOD)

Upgrading Price Target to \$1.30

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We say

Price

Target

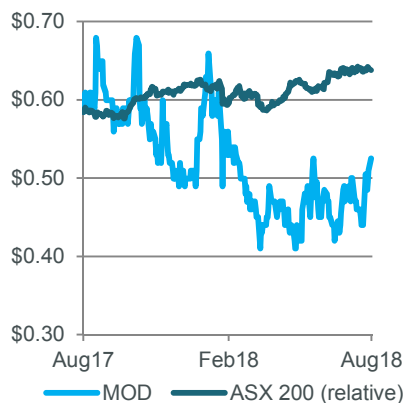
Strategic Target

BUY

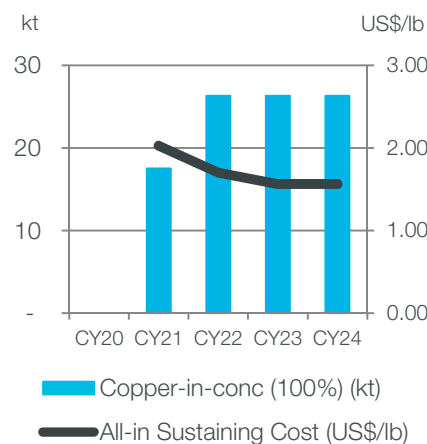
0.52 1.30 1.60

MOD has had a *very* busy few months, consolidating both the ownership of T3 and its shares on issue, as well as announcing impressive first assays from the core of A4 Dome, a regional exploration prospect only ~8km from T3 ... which we believe *could* be a material new discovery. **More importantly, the exploration results at A4 Dome confirm MOD's geological model works** and with 7 more domes to test, MOD's **district potential** is becoming clearer by the day. Maintain conviction Buy.

SHARE PRICE CHART



T3 PRODUCTION & COSTS (@ 3MTPA)



COMPANY DATA & RATIOS

Enterprise value	\$138m
Diluted market cap*	\$155m
Diluted shares*	297m
Free float	100%
12 month price range	\$0.39-0.72
GICS sector	Materials
Board & Management hold ~11% (FD)	
*Diluted for ~48.6m options	

IMPLIED RETURN

Implied all-in return	150%
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COMPELLING VALUE AT THESE LEVELS

MOD has an EV of only ~A\$120m including \$17m in cash, a *material* discount to our NPV₁₀ of A\$352m for MOD's 100%-share of T3 at US\$3.20/lb copper. With the company's valuation comfortably underpinned by T3, we believe MOD's future should be heavily skewed to the upside, particularly if it has continued regional exploration success.

\$17M IN CASH WITH 9 RIGS ON SITE

In our view, MOD has district scale potential and holds ~11,500km² of the Kalahari copper belt in Botswana. The company has 9 rigs on site, \$17m in cash and is currently drilling a number of regional exploration targets...and in our view further exploration success could trigger a *major* positive re-rating of the company.

INCREASING PRICE TARGET TO \$1.30

We increase our price ~8% to \$1.30 (from \$1.20) post the accretive deal to consolidate ownership of the T3 copper project. We now model a 3mtpa plant at T3, in line with company guidance and assume capex of US\$180m (our estimate). Previously we used the PFS expanded case – a 2.5mtpa plant for US\$160m, expanded to 4mtpa in year 3 for US\$40m.

A4 DOME HIT LAST WEEK: 52M @ 1.5% CU

We attended Diggers and Dealers last week... and MOD was one of the most talked about stocks on the back of the hit at A4 Dome the company announced on Monday comprising:

- 52m @ 1.5% Cu + 14g/t Ag from 232m
 - including 15.5m @ 2.9% Cu + 42g/t Ag from 269m
 - including 4.4m @ 5.3% Cu + 90g/t Ag from 280m

Potentially a material discovery at A4 Dome?

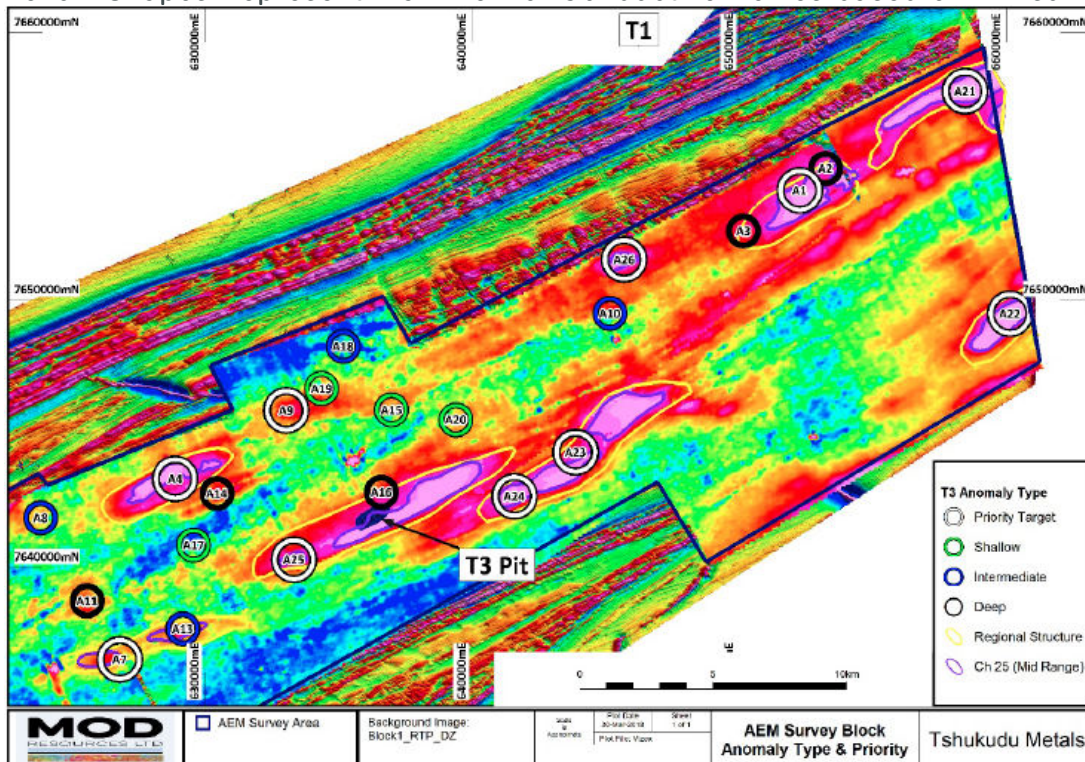
While it is early days and one hole does *not* make a deposit, given the style of mineralisation is **sediment-hosted copper**, we believe it is *highly* likely MOD will find more copper at A4 Dome with the 4 rigs currently drilling this prospect. There are another 2 rigs are drilling A1 Dome.

In our view, this drill hit was a very encouraging result from the first hole into the central core of the A4 Dome... and could potentially be the discovery hole of a material deposit for MOD. More importantly, *in our view the hit at A4 Dome confirms MOD's geological model works – with 7 conductive Domes already identified near T3, confirmation of the geological model is actually probably more important than the hit itself.*

While the depth of mineralisation of this hit means any mine at A4 would likely be an underground, given the high grade section comprises 15.5m @ 2.9% Cu and assuming continuity can be confirmed (at these widths and grades) MOD could potentially have a very profitable underground mine on its hands.

We believe a ~3% copper underground mine with ~15m widths would probably make more money than MOD's ~1% low-strip, open pit deposit at T3, which should generate ~50% margins at current prices based on MOD's PFS for T3 in January (see p4).

Yellow Shapes Represent Plan View of Conductive Domes based on EM survey



The A4 Dome is located only 8km west of MOD's T3 deposit.

Source: Company

MOVING TO 100% OWNERSHIP OF T3

On 18 July 2018, MOD unveiled a accretive deal to consolidate ownership of its T3 copper project in Botswana, by acquiring Metal Tiger's (MTR) 30% stake in the T3 JV for scrip.

Highlights of the Deal

MOD moves to 100% of T3 in all scrip deal valued at ~A\$26.6m (14% accretive for MOD shareholders). Under the terms of the deal:

- MTR will be issued 17.2m MOD shares, increasing MTR's holding to 12.5%
- MTR will be issued 40.6m 3-year options with zero exercise price (only exercisable up to a holding of 12.5%)
- **MTR cannot 'shop' its stake:** MTR cannot move over 12.5% or below 6.25% without MOD's consent for 3 years plus significant trading restrictions including a 12-month escrow. *And* if MTR moves below 10%, it loses its board seat.
- **MTR cannot block any deal:** MTR must vote with the MOD board in all matters for 3 years
- MOD also has the right to consolidate any of the other JV exploration assets for cash or scrip after 3 years on its election

In short, this looks like a classic win-win deal to us... and a great deal for MOD shareholders in our view. While the transaction is 14% accretive for MOD shareholders... there are also additional, more qualitative benefits of the deal including:

- **A cleaner, simpler structure:** Investors always prefer simplicity... and complexity tends to attract a discount. This improved simplicity also applies to any third party discussions – i.e. the Govt, lenders, offtakers, potential acquirers etc. Avoiding the need to have a JV meeting for every material external discussion represents a meaningful improvement!
- **MOD becomes a larger, more relevant and in time a more liquid copper exposure:** In the ongoing competition for capital, investment relevance and liquidity is often driven by scale... and MOD's investment relevance improves markedly as a result of this transaction.

We provide a brief refresher on the key metrics of MOD's T3 copper project on the next page.

A REMINDER: T3'S COMPELLING METRICS

In January 2018, MOD released a PFS for its T3 copper project in Botswana examining two cases:

- A 2.5mtpa Base Case
- A 4.0mtpa Expanded Case

The company has now confirmed it is looking at a 3mtpa plant for its bankable study. We model T3 as a 3mtpa plant producing ~23ktpa of copper-in-conc at a very competitive AISC of ~US\$1.50/lb for an initial mine life of ~14 years.

After detailed analysis of MOD's studies, we largely endorse the company's estimates in our forecasts, as set out below:

T3 Operating Metrics (100%-basis)		Base Case	Expanded Case	Blue Ocean
Plant size	mtpa	2.5	4.0	3.0
Initial capex	US\$m	155	155	180
Expansion capex (in year 3)	US\$m	-	37	-
Average copper head grade	%	1.02	0.86	0.86
Average copper recovery	%	93.1	92.3	92.3
Copper-in-conc	ktpa	23	28	23
AISC (post Ag credit)	US\$/lb	1.36	1.46	1.54
Average strip ratio (waste:ore)	x	4.76	4.28	4.28
Mining Inventory	mt	21.4	41	41
Mine life	years	8.8	11.7	13.7

T3 Financial Metrics (100%-basis)		Base Case	Expanded Case	Blue Ocean
Copper Price	US\$/lb	3.03	3.02	3.20
AISC Margins	%	55	52	52
Average FCF (pre-tax)	US\$m	77	85	87
Pre-Tax NPV	US\$m	281	402	407
Pre-tax IRR	%	39	38	36
Post-Tax NPV	US\$m	-	-	261
Post-tax IRR	%	-	-	28

Source: Company, Blue Ocean estimates
 Note: NPVs calculated using an 8% real / 10% nominal discount rate

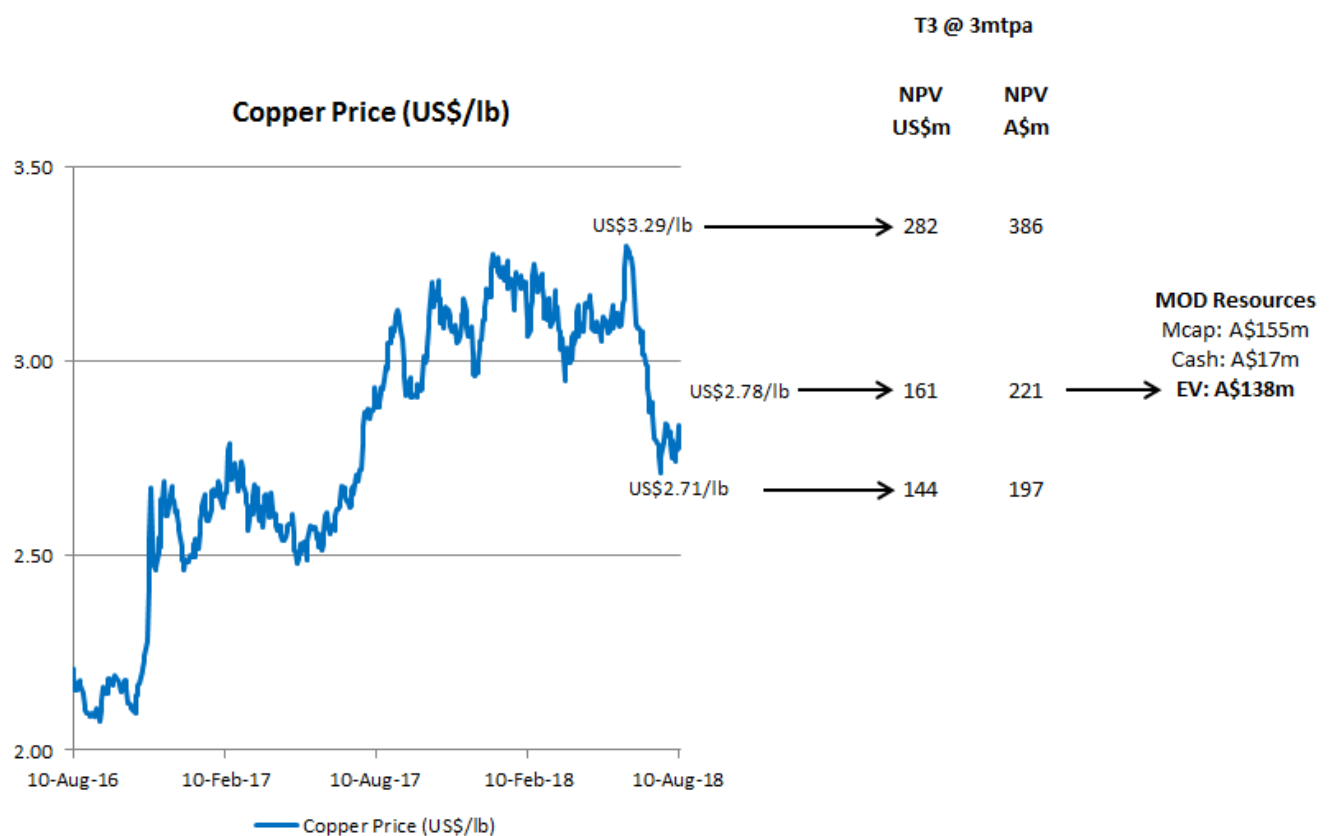
MOD IS CHEAP...*VERY* CHEAP IF COPPER RECOVERS

Now that MOD has moved to 100% ownership of the T3 copper project in Botswana, we thought it might be worth revisiting the project economics and valuation... relative to the recent moves in the copper price.

The chart below demonstrates:

- At spot copper of US\$2.78/lb, the NPV of T3 is A\$220m vs. MOD's FD EV of only A\$139m
- **If the copper price recovers to US\$3.29/lb, the NPV of T3 increases 75% to A\$386m**
- This suggests to us MOD *could* rally 75% if the copper price recovers to its recent highs

Bearing in mind, this analysis *ignores* the potential value of further exploration success at A4 Dome, A1 Dome and MOD's other regional exploration targets.



Source: IRESS, Company, Blue Ocean estimates at spot A\$/US\$ of 0.73.

Could Copper Hit US\$4.00/lb?

Last month, a large US investment bank published a very bullish note on the outlook for copper calling the price to over US\$4.00/lb (US\$9,000/t) over the next few years¹.

Following on from the analysis above:

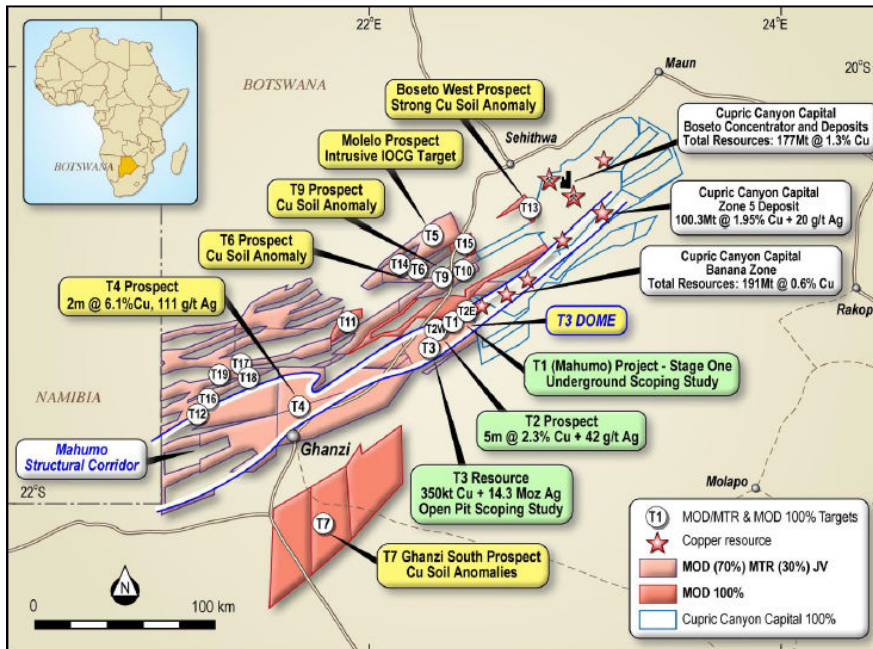
- **At US\$4.00/lb copper the NPV of T3 increases 180% to A\$618m**

Clearly this would be *very* bullish for MOD if this forecast proves to be correct.

¹ <https://www.bloomberg.com/news/articles/2018-07-18/prepare-for-copper-on-steroids-as-trump-slump-belies-shortage>

EXPLORATION: DISTRICT SCALE POTENTIAL

MOD's holdings comprise prospecting licences with a *very* large area comprising ~11,500km² in the relatively unexplored central and western Kalahari Copper Belt.



Despite over 6.5mt of copper in resource being defined to date in this prospective copper belt, MOD's adjacent leases are largely underexplored.

All the resources in the belt are sediment hosted deposits which occur within (two) sequences folded into domes and intersected by major geological structures, shallow angle thrusts, etc. This raises the potential for widespread copper sulphide mineralisation.

Source: Company

MOD is focused on 6 key projects:

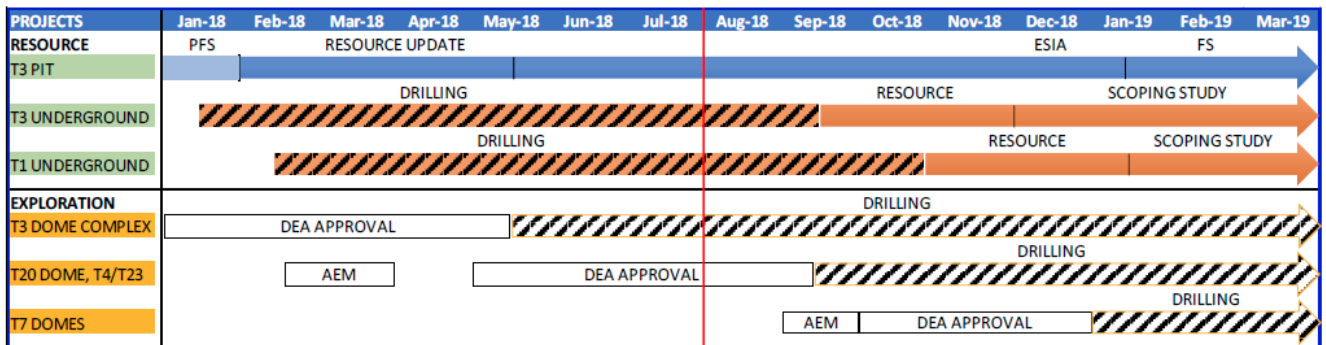


Figure 1: Target timelines for three resource projects and three regional exploration areas

Source: MOD Quarterly report, 30 June 2018

Drilling in CY18 is designed to advance three resource projects:

- (1) T3 Pit (update resource released on 16 July)
- (2) T3 Underground
- (3) T1 Underground

The regional exploration programme plans to test the district scale potential of three areas:

- (1) T3 Dome – 4 key dome targets A4, A1, A21 & A27
- (2) T20 Dome – drilling expected to start in September 2018
- (3) T7 Dome – drilling expected to start in January 2019

MOD has 9 drill rigs on site and \$17m in cash at end June and has a current cash burn rate of ~A\$2-3m/month.

PRICE TARGET & RATING

We increase our Price Target for MOD by ~8% to \$1.30 (from \$1.20) as a result of the consolidation of 100% ownership of T3 from its JV partner Metal Tiger.

On 30 April 2018, MOD confirmed that subject to shareholder approval, it intended to undertake a 10 for 1 share consolidation to reduce the ~2.3bn shares on issue to ~230m. This share consolidation has now been completed and reflected in our updated forecasts.

In line with recent guidance, we now model a 3mtpa plant at T3 built for capex of US\$180m (our estimate) vs. our previous forecasts which used the PFS expanded case (2.5mtpa initially for US\$160m, expanded to 4mtpa in year 3 for an additional US\$40m). Our NPV for MOD is based on copper prices of US\$3.20/lb, discounted by 20% for normal development risks.

As a result of MOD's recent exploration success on its regional drill programme we have increased our notional exploration value for MOD from \$75m to A\$100m.

We rate MOD Resources a high conviction Buy and our \$1.30 Price Target represents an implied return of ~150%.

STRATEGIC TARGET

We maintain our longer-term Strategic Target of \$1.60 based on the same assumptions above and by removing the discounts applied to our valuation to zero.

Our \$1.60 Strategic Target represents an implied return of over 200%.

It's important to remember that MOD has its foot on a *very* substantial tenement package covering ~11,500km² of the southern end of the Kalahari copper belt in Botswana and the company believes its ground may in time prove to be a copper *district*.

If the company can successfully find another high grade deposit, with thick, flat-lying zones of mineralisation like T3, we believe the market may begin pricing in a much higher probability of further exploration success, and may begin pricing in this copper *district* potential. If this occurs, we believe it is likely even our Strategic Price Target may prove to be too low.

KEY RISKS

MOD Resources is exposed to all the normal risks associated with developing and operating mining projects, including funding and construction risk.

Assuming the company makes the transition into production, the company's revenues will be derived from the sale of copper and silver. Fluctuations in the copper and silver price as well as the Australian dollar could impact the company's reported cash flow (in A\$), profitability and share price.

As MOD's T3 copper project is based in Botswana, an investment in MOD Resources also carries Botswana sovereign risk. An overview of Botswana sovereign risk is outlined on the next page.

BOTSWANA: A PREFERRED JURISDICTION IN AFRICA

Botswana is a landlocked country in southern Africa, with a strong stable democracy and a consistent record of uninterrupted democratic elections dating back to 1966.

Botswana is topographically flat with the Kalahari Desert stretching across ~70% of the country. With a population of just over 2 million, it is also one of the most sparsely populated nations in the world.

Botswana has an internationally respected mining industry, Mining Act and English language based commerce.



Source: Company Reports

SOVEREIGN RISK

The chart below show a comparison of country risk according to Credendo, Belgium’s state-owned credit insurer and the world’s second largest credit insurer. Credendo provides cover for companies and banks against political and commercial risks relating to international transactions. According to Credendo:

- **Botswana is considered lower risk than Indonesia**, being **lower risk on 7 of the 8 measures below**. Indonesia is home to Finders (FNX) Wetar copper project, which was bid for by Eastern Field on 6 October 2017.
- **Botswana is considered much lower sovereign risk than Brazil**, being **lower risk on all 8 measures below**. One of MOD’s ASX-listed copper peers is the Brazil-based Avanco Resources (AVB) which was bid for by OZ Minerals (OZL) on 27 March 2018.

Comparing Sovereign Risk



Risk Score*: **Botswana: 13/52**

Indonesia: 22/52

Brazil: 28/52

Source: Credendo May 2018. *Our estimate which assumes A=1,B=2,C=3 for Commercial Risk

MODEL SUMMARY: FINANCIALS & VALUATION (A\$M)
Stock Details

Recommendation:	BUY					Enterprise Value	\$138m
Target	\$1.30	Share Price	\$0.52	Strategic Target (ST)	\$1.60	Diluted MCap	\$155m
NAV	\$1.29	52 Week High	\$0.72	Implied Return to ST	208%	Diluted Shares	297m
Implied Return	150%	52 Week Low	\$0.39			Free Float	100%
						Avg Daily Value	\$0.3m

Macro Assumptions	CY17E	CY18E	CY19E	CY20E	CY21E
Copper Price (US\$/lb)	2.80	3.20	3.20	3.20	3.20
Silver Price (US\$/oz)	17.05	18.00	18.00	18.00	18.00
Exchange Rate (A\$/US\$)	0.77	0.75	0.72	0.71	0.73

Profit & Loss (A\$m)	CY17E	CY18E	CY19E	CY20E	CY21E
Revenue	-	-	-	-	175
Operating Costs	-	-	-	-	(108)
Operating Profit	-	-	-	-	67
Corporate & Other	(3)	(4)	(4)	(4)	(5)
Exploration Expense	(0)	(5)	(3)	(1)	(1)
EBITDA	(3)	(9)	(7)	(5)	60
D&A	(0)	(0)	(0)	(0)	(13)
EBIT	(4)	(9)	(7)	(5)	47
Net Interest Expense	0	0	-	(4)	(16)
Pre-Tax Profit	(3)	(9)	(7)	(9)	31
Tax Expense	-	-	-	-	(9)
Minorities (5% Govt)	-	-	-	-	-
Underlying Profit	(3)	(9)	(7)	(9)	21
Significant Items (post tax)	(0)	-	-	-	-
Reported Profit	(3)	(9)	(7)	(9)	21

Cash Flow (A\$m)	CY17E	CY18E	CY19E	CY20E	CY21E
Operating Cashflow	(2)	(5)	(4)	(4)	62
Tax	-	-	-	-	(9)
Net Interest	0	0	-	(4)	(16)
Net Operating Cash Flow	(2)	(4)	(4)	(8)	36
Exploration	(8)	(11)	(6)	(1)	(3)
Capex	(1)	-	(83)	(169)	(7)
Acquisitions / Disposals	-	-	-	-	-
Other	-	-	-	-	-
Net Investing Cash Flow	(9)	(11)	(89)	(170)	(10)
Equity Issue	14	18	114	-	-
Borrowing / Repayments	(1)	(1)	-	170	-
Dividends	-	-	-	-	-
Other	2	-	-	-	-
Net Financing Cash Flow	16	18	114	170	-
Change in Cash Position	5	3	21	(8)	26
FX Adjustments	(0)	-	-	-	-
Cash Balance	26	33	154	58	90

Balance Sheet (A\$m)	CY17E	CY18E	CY19E	CY20E	CY21E
Cash	10	13	34	26	52
Other Current Assets	4	4	4	4	4
PP&E	1	1	84	253	247
Exploration & Development	21	27	29	30	31
Other Non Current Assets	0	0	0	0	0
Total Assets	36	44	151	312	334
Debt	1	-	-	170	170
Other Liabilities	5	5	5	5	5
Net Assets	31	39	146	137	158

Ratio Analysis		CY17E	CY18E	CY19E	CY20E	CY21E
Diluted Shares	m	238	297	491	491	491
EPS - Diluted	Ac	(1.4)	(3.4)	(1.7)	(1.8)	4.4
P/E	x	n.m.	n.m.	n.m.	n.m.	11.9x
CFPS - Diluted	Ac	(0.9)	(1.6)	(0.9)	(1.7)	7.4
P/CF	x	n.m.	n.m.	n.m.	n.m.	7.1x
FCF - Diluted	Ac	(1.2)	(1.5)	(17.8)	(35.2)	9.2
P/FCF	x	n.m.	n.m.	n.m.	n.m.	5.7x
Dividends	Ac	-	-	-	-	-
Dividend yield	%	-	-	-	-	-
Payout Ratio	%	-	-	-	-	-
Franking	%	-	-	-	-	-
Enterprise Value	A\$m	145	142	121	299	273
EV/EBITDA	x	n.m.	(15.3x)	(17.8x)	(65.6x)	4.5x
ROE	%	(11%)	(24%)	(5%)	(7%)	14%
ROA	%	(9%)	(21%)	(5%)	(3%)	6%
Net Debt or (Cash)	A\$m	(10)	(13)	(34)	145	119
Gearing (ND/(ND+E))	%	(45%)	(49%)	(30%)	51%	43%
Gearing (ND/E)	%	(31%)	(33%)	(23%)	106%	75%

Reserves & Resources

Resources		mt	% Cu	g/t Ag	% CuEq*	kt Cu	kt CuEq*
T3	M+I	36.6	1.14%	16.0	1.27%	417	464
	Inferred	23.5	0.74%	11.0	0.83%	173	195
	M+I+I	60.2	0.98%	14.0	1.09%	590	657
T1 (Mahumo)	M+I	2.2	1.88%	48.2	2.27%	42	51
	Inferred	0.4	2.52%	57.4	2.98%	11	13
	M+I+I	2.7	2.00%	50.0	2.40%	53	64
Total	M+I+I	62.8	1.02%	15.5	1.15%	644	721
Reserves		mt	% Cu	g/t Ag	% CuEq*	kt Cu	kt CuEq*
T3	P+P	21.4	1.02%	10.3	1.10%	218	235

*CuEq based on US\$3.20/lb Cu & US\$18/oz Ag

Earnings Sensitivity		CY21E	CY22E	CY21E	CY22E
		A\$m	A\$m	%	%
Copper Price	US\$/lb	+10%	5.5	9.8	91%
Silver Price	US\$/oz	+10%	0.4	0.7	6%
FX translation to A\$ accts	A\$/US\$	-10%	1.2	3.8	21%

Valuation	Discount	Stake	A\$m	A\$/sh
T3 (unrisked)	-	100%	344	1.16
T3 (risk-adjusted)	20%	100%	276	0.93
T1 (risk-adjusted)	50%	100%	35	0.12
Exploration & Other Projects			100	0.34
Corporate & Other			(45)	(0.15)
Debt			-	-
Cash			17	0.06
Option Strikes			0	0.00
Risk adjusted NAV			383	1.29
				0.40

Source: Company data, Blue Ocean Equities

MODEL SUMMARY: OPERATIONAL INPUTS & FREE CASH FLOW (US\$m)

						Macro Assumptions											
						CY18E	CY19E	CY20E	CY21E	CY22E							
						Copper Price	US\$/lb	3.20	3.20	3.20	3.20	3.20					
						Silver Price	US\$/oz	18.00	18.00	18.00	18.00	18.00					
Operational Summary						FCF Contribution											
						US\$m	CY18E	CY19E	CY20E	CY21E	CY22E						
T3 (100% basis)						T3 (MOD's 100% share)											
Ore Milled	mt	-	-	-	1.4	2.5											
Head Grade	%	-	-	-	0.95%	0.95%											
Recovery	%	-	-	-	92%	92%											
Copper in Conc	kt	-	-	-	12	22	Revenue	US\$m	-	-	-	89	160				
Mining	US\$/lb	-	-	-	1.12	0.84	Operating Costs	US\$m	-	-	-	55	85				
Power	US\$/lb	-	-	-	0.27	0.27	Sustaining Capex	US\$m	-	-	-	5	5				
Processing	US\$/lb	-	-	-	0.20	0.20	All-in Sustaining Cost	US\$m	-	-	-	60	90				
G&A	US\$/lb	-	-	-	0.09	0.09	AISC Margin	US\$m	-	-	-	30	70				
Transport & Marketing	US\$/lb	-	-	-	0.17	0.17	Initial Capex	US\$m	-	53	107	-	-				
TC/RCs	US\$/lb	-	-	-	0.17	0.17	Exploration	US\$m	8	4	1	2	2				
Silver Credit	US\$/lb	-	-	-	(0.22)	(0.22)	Corporate	US\$m	CY18E	CY19E	CY20E	CY21E	CY22E				
C1 Cash Costs	US\$/lb	-	-	-	1.78	1.50	Cash Tax	-	-	-	3	14					
Royalties	US\$/lb	-	-	-	0.11	0.11	Corporate Overheads	3	3	3	4	4					
Operating Cost	US\$/lb	-	-	-	1.88	1.61	Other Items	(0)	0	0	-	-					
Sustaining Capex	US\$/lb	-	-	-	0.18	0.10	FCF pre Debt Service	(11)	(61)	(110)	20	50					
All-in Sustaining Cost	US\$/lb	-	-	-	2.07	1.71	Net Interest	(0)	-	3	11	10					
% AISC Margin	%	-	-	-	35%	47%	Debt Drawdown / (Repayment)	(0)	-	113	-	(22)					
						FCF post Debt Service											
						(11)						(61)	(0)	10	17		
						New Equity/Dividends						US\$m	CY18E	CY19E	CY20E	CY21E	CY22E
						Proceeds from Shares/Options						14	77	-	-	-	
						Dividends Paid						-	-	-	-	-	
						Change in Cash						3	16	(0)	10	17	
						Cash Balance						25	107	52	64	106	

Source: Company data, Blue Ocean Equities

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Steuart McIntyre does not own shares in MOD Resources.