Analysts
Stuart Howe 613 9235 1856
Joseph House 613 9235 1624

Authorisation
David Coates 612 8224 2887

BCI Minerals Ltd (BCI)

FY22: Interim CEO appointed; Mardie development and cost review update

Recommendation
Buy (unchanged)
Price
$0.255
Target (12 months)
$0.50 (unchanged)

GICS Sector

Materials

Expected Return	
Capital growth	**96%**
Dividend yield	**0%**
Total expected return	**96%**
Company Data & Ratios	
Enterprise value	**$97m**
Market cap	**$308m**
Issued capital	**1,209m**
Free float	**57%**
Avg. daily val. (52wk)	**$418,051**
12 month price range	**$0.215-0.525**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.24	0.38	0.44
Absolute (%)	6.3	-32.9	-42.0
Rel market (%)	2.4	-31.5	-36.4

Absolute Price

SOURCE: IRESS

Earnings weaker than expected; Interim CEO appointed

BCI reported FY22 EBITDA of -$10.4m (BPe -$0.6m) and NPAT of -$15.5m (BPe -$3.3m), with differences due to higher than expected administrative and Mardie development expenses and partially offset by higher than expected Iron Valley EBITDA. Administrative costs were higher given workforce expansion as Mardie construction activities ramped up. Kerryl Bradshaw, current BCI CFO, was appointed as Interim CEO (effective 1 September 2022) in place of Alwyn Vorster (Managing Director). At 30 June 2022, BCI had cash of $232m and drawn debt of $20m for net cash (excluding leases) of $212m; the company has access to $100m in convertible notes for project financing.

EPS changes mainly reflect changes to our depreciation and interest expense assumptions and are off a low base: FY23 now -0.4cps (previously 0.2cps); FY24 now -2.5cps (previously -1.8cps); and FY24 now -4.3cps (previously -3.6cps).

Mardie development & cost review update

As previously announced, the BCI Board is undertaking a cost and design review for the Mardie Salt and Potash project as considerable cost inflation became apparent in 2H FY22. BCI will defer the award of selected construction contracts and progress already awarded contracts including the accommodation village, construction of Ponds 1 to 5 and the seawater intake station. BCI is fully funded for committed project expenditure to 30 June 2023.

Investment thesis: Buy, TP $0.50/sh (unchanged)

The Mardie Salt and SOP Project is tier-one in scale and position on the global cost curve, and transformational for BCI. Mardie has received support from government backed debt agencies and commercial lenders, recognising the project's 60+ year life, strong earnings potential and sustainable, carbon neutral credentials. We see further value appreciation as the project reaches de-risking milestones. At steady state, we estimate that the project will be capable of generating annual EBITDA of over $210m.

Earnings Forecast

Year ending 30 June	2022a	2023e	2024e	2025e
Sales (A$m)	65	41	47	52
EBITDA (A$m)	(10)	1	3	7
NPAT (reported) (A$m)	(15)	(5)	(31)	(52)
NPAT (adjusted) (A$m)	(15)	(5)	(31)	(52)
EPS (adjusted) (¢ps)	(1.7)	(0.4)	(2.5)	(4.3)
EPS growth (%)	-142%	na	na	na
PER (x)	-15.0x	-58.3x	-10.1x	-5.9x
FCF Yield (%)	-44%	-100%	-80%	-67%
EV/EBITDA (x)	-9.3x	123.3x	27.9x	14.0x
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	-	-	-	-
ROE (%)	-5%	-1%	-8%	-15%

SOURCE: BELL POTTER SECURITIES ESTIMATES

FY22: Interim CEO appointed

Table 1 - FY22 result summary

Half / Full year	FY21 (actual)	1H FY22 (actual)	2H FY22 (actual)	FY22 (actual)	PCP Change %	FY22 (BP est.)	Actual vs. BP est. %
Iron ore sold (Mt wet)	6.0	2.9	1.9	**4.8**	-20%	**4.8**	
Revenue $m	160.2	34.1	31.1	**65.2**	-59%	**70.3**	-7%
EBITDA $m	28.9	-13.4	3.0	**-10.4**	na	**-0.6**	na
EBITDA (excl. Mardie development costs) $m	63.4	-2.9	13.1	**10.3**	-84%	**14.9**	-31%
NPAT $m	22.0	-16.0	0.6	**-15.5**	na	**-3.3**	na
EPS cps	4.0	-0.9	0.0	**-1.7**	na	**-0.3**	na
Segment EBITDA							
Iron Valley	69.5	13.6	14.2	**27.8**	-60%	**24.9**	12%
Mardie	-34.5	-10.5	-10.1	**-20.6**	na	**-10.5**	na
Tenements & other	-6.1	-16.5	-1.1	**-17.6**	na	**-15.0**	na
Total EBITDA	28.9	-13.4	3.0	**-10.4**	na	**-0.6**	na

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Key observations from the result

- **Earnings weaker than expected:** FY22 EBITDA and NPAT were weaker than expected largely due to higher than expected administrative and Mardie development expenses and lower than anticipated revenues. Administrative costs were higher given an expanding workforce following Mardie project major construction activities commencing in February 2022.
- **Balance sheet and Mardie capital expenditure:** BCI ended FY22 with cash of $232m and drawn debt of $20m for net cash (excluding leases) of $212m. The borrowings relate to the issue of the Series 1 Convertible Note (non-interest bearing) to AustralianSuper as consideration for shares in Agrimin (AMN, Buy (Spec.), Valuation $0.99ps) and Highfield Resources (HFR, not rated); these shares are currently worth $38m at last close of business (25 August 2022). FY22 capital expenditures increased to $163m (up from $52m in FY21) driven by a ramp up in Mardie development activities. Contracts totalling $384m were awarded in FY22 and relate to the construction of marine structures, the Trial Pond and Ponds 1-5. BCI is fully funded for committed project expenditure to 30 June 2023.
- **Cost review ongoing:** As previously announced, BCI is undertaking a cost and design review for Mardie project following significant cost increases for labour, building material, equipment and consumables. On completion, the BCI Board will advise the market of the review outcome, with a focus on changes to project design, development schedule and required project financing. Discussions with debt and equity providers will then commence.
- **Mardie project update:** The 400-bed accommodation village is nearing completion and should be operational within months. Earthwork contracts for Ponds 3-5 were awarded to QH&M Birt; the contractor mobilised to site and commenced construction of Pond 3. The seawater intake station is currently around 65% complete; commissioning of the intake station is expected in December 2022. A contract was awarded to McConnell Dowell Constructors Australia Pty Ltd for the ~$190m marine structures package.
- **1H FY23 outlook:** BCI has guided for a number of development milestones to be completed by 1H FY23. These milestones include: construction completion of the Mardie accommodation village; installation of intake pumps; seawater intake commissioning commencement; and material advancement of Ponds 1 and 2. BCI also seeks to complete a cost and design review to re-optimise the Mardie development

schedule and budget and progress approvals for the expanded Optimised Feasibility Study footprint.

- **Salt and SOP markets buoyant:** The delivered price of Australian salt increased in FY22: June 2022 quarter Asian import prices averaged US$48/t, up 25% YoY; and China import prices averaged US$53/t, 45% YoY. These prices compare with the Mardie OFS long term real price forecast of ~US$50/t CFR (A$55/t FOB). SOP (NW Europe, bulk, granular) prices also improved, averaging US$1,173/t in the June 2022 quarter, up 85% YoY. The Mardie OFS estimated a long term real price for SOP sales of US$578/t FOB (A$819/t FOB).
- **Interim CEO appointed:** Kerryl Bradshaw, current BCI CFO, was appointed as Interim CEO (effective 1 September 2022) in place of Alwyn Vorster (Managing Director).

Mardie project capex & delay valuation sensitivities

BCI has indicated that high likelihood of a material increase to Mardie project capital cost estimates and delays to the overall project schedule.

The following tables show the impact of increases in capital costs and project delays on our Mardie project and BCI listed entity valuations.

We have not made any changes to our base case Mardie valuation. Capital cost increases and the impact of delays are likely to be offset by compensatory increases in salt and SOP commodity prices; it would be asymmetric to only factor in higher capital costs and delays.

Table 2 - Mardie project valuation scenarios $m

Capital cost increase	Base case	+5%	+10%	+15%	+20%
First salt delay					
Base case	**486**	454	436	403	384
1 year	442	413	396	367	349
2 years	402	375	360	333	318

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 3 - BCI valuation scenarios $/sh

Capital cost increase	Base case	+5%	+10%	+15%	+20%
First salt delay					
Base case	**0.50**	0.48	0.47	0.44	0.43
1 year	0.47	0.45	0.44	0.41	0.40
2 years	0.44	0.42	0.41	0.39	0.38

SOURCE: BELL POTTER SECURITIES ESTIMATES

Earnings change & valuation summary

Changes to earnings estimates

We have updated our BCI financial model for the FY22 financial result update and made the following adjustments:

- Increased our corporate cost assumptions;
- Assumed the drawdown of a $50m convertible note and associated interest expense; and
- Increased our Iron Valley depreciation expense assumptions.

Table 4 - Changes to earnings estimates

	Previous			New			Change		
Year ending 30 Jun	**FY23**	**FY24**	**FY25**	**FY23**	**FY24**	**FY25**	**FY23**	**FY24**	**FY25**
Production (wmt)	3.2	4.4	4.8	**3.2**	**4.4**	**4.8**	0%	0%	0%
Iron ore price (62% CFR China) (US$/t)	105	93	93	**105**	**93**	**93**	0%	0%	0%
Sales (A$m)	41	47	52	**41**	**47**	**52**	0%	0%	0%
EBITDA (A$m)	3	5	9	**1**	**3**	**7**	-72%	-37%	-23%
NPAT (reported) (A$m)	3	(22)	(44)	**(5)**	**(31)**	**(52)**	NA	NA	NA
NPAT (adjusted) (A$m)	3	(22)	(44)	**(5)**	**(31)**	**(52)**	NA	NA	NA
EPS (adjusted) (¢ps)	0.2	(1.8)	(3.6)	**(0.4)**	**(2.5)**	**(4.3)**	NA	NA	NA
Dividend (¢ps)	-	-	-	**-**	**-**	**-**	0%	0%	0%
Valuation ($/sh)	**0.51**			**0.50**			**-2%**		

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Risked valuation summary

The table below outlines our BCI sum of the parts valuation. Our Buy recommendation and $0.50/sh Target Price are unchanged. We factor in higher corporate cost assumptions in our BCI sum of the parts valuation.

Table 5 - Risked valuation summary

	Previous	New
Mardie Salt & Potash project (unrisked) $m	486	486
Risk discount to account for project stage %	10%	10%
Mardie Salt & Potash project (risked) $m	438	438
Iron Valley agreement $m	34	29
Value of core projects (risked) $m	**472**	**467**
Other assets $m	38	38
Corporate & admin $m	-80	-100
Enterprise value (risked) $m	**430**	**404**
Net debt / (cash) $m	-190	-212
Equity value (risked, undiluted) $m	**620**	**616**
Current shares on issue m	1,206	1,209
In the money options & rights m	17	15
Assumed capital raising dilution m		
Diluted shares on issue m	**1,223**	**1,224**
Net debt / (cash) (including raising) A$m	-190	-212
Equity value (risked, diluted) $m	620	616
Equity value (risked, diluted) $/sh	**$0.51/sh**	**$0.50/sh**
Current share price		$0.255/sh
Equity value upside to current share price %		96%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

BCI Minerals Ltd (BCI)

Company description

BCI's key assets are the Mardie Salt and SOP project and a portfolio of iron ore tenements. A DFS on Mardie was published in July 2020 outlining a project capable of producing 4.4Mtpa salt and 120ktpa SOP and with a pre-tax NPV (7% discount rate) of $1,197m. BCI's key iron ore asset is its Iron Valley Resource which is mined under agreement by Mineral Resources Ltd (MIN) and provides a royalty-like earnings stream. BCI also has a number of royalty agreements on other iron ore tenements at earlier stages of development.

Investment thesis: Buy, TP $0.50/sh (unchanged)

The Mardie Salt and SOP Project is tier-one in scale and position on the global cost curve, and transformational for BCI. Mardie has received support from government backed debt agencies and commercial lenders, recognising the project's 60+ year life, strong earnings potential and sustainable, carbon neutral credentials. We see further value appreciation as the project reaches de-risking milestones. In steady state, we estimate that the project will be capable of generating annual EBITDA of over $210m.

Valuation methodology

Principal inputs into our valuation of BCI are discounted cash flow models of:

- Mardie Salt & SOP project, applying parameters consistent with the April 2021 Optimised DFS, however, using more conservative discount rate and foreign exchange assumptions and a risk discount applied to account for project stage.
- Iron Valley agreement with MIN, operating at on average 4.8Mtpa and generating annual EBITDA of around $16.8m until 2030 assuming a long term iron ore price of US$95/t (real).
- Other assets assessed on the basis of the royalty agreement, the in-ground value of the iron ore and a discount to account for risks associated with timing and development.
- Corporate costs and tax assets.

Investment risks

Risks include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Infrastructure access.** Bulk commodity producers are particularly reliant upon access to transport infrastructure. Access to infrastructure is often subject to contractual agreements, permits, and capacity allocations. Agreements are typically long-term in nature (+10 years). Infrastructure can be subject to outages as a result of weather events or the actions of third party providers.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour markets.
- **Resource growth and mine life extensions.** Future earnings forecasts and valuations may rely upon resource and reserve growth to extend mine lives.
- **Sovereign risks.** Mining companies' assets can be located in countries other than Australia and are subject to the sovereign risks of that country.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Environmental risks.** Resources companies are exposed to risks associated with environmental degradation as a result of their exploration and mining processes. Fossil fuel producers (coal) may be particularly exposed to the environmental risks of end markets including the electricity generation and steel production industries.
- **Operating and development risks.** Resources companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single operation company. Development assets can be subject to approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Occupational health and safety risks.** Resources companies are particularly exposed to OH&S risks given the physical nature and human resource intensity of operating assets.
- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments, and managing debt repayments.
- **Merger/acquisition risks.** Risks associated with value transferred during merger and acquisition activity.
- **COVID-19 risks.** Resources companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.

BCI Minerals Ltd
as at 25 August 2022

Recommendation	Buy
Price	$0.255
Target (12 months)	$0.50

Table 6 - Financial summary

Date		25/08/22
Price	A$/sh	0.26
Target price	A$/sh	0.50

Bell Potter Securities
Stuart Howe (showe@bellpotter.com.au, +61 3 9235 1856)
Joseph House (jhouse@bellpotter.com.au, +61 3 9235 1624)

PROFIT AND LOSS

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
Revenue	$m	160	65	41	47	52
Expenses	$m	(97)	(55)	(40)	(44)	(46)
EBITDA	$m	**29**	**(10)**	**1**	**3**	**7**
Depreciation & amortisation	$m	(7)	(6)	(5)	(5)	(4)
EBIT	$m	22	(16)	(5)	(1)	3
Net interest expense	$m	0	1	(1)	(30)	(55)
Profit before tax	$m	22	(15)	(5)	(31)	(52)
Tax expense	$m	0	-	-	-	-
NPAT (reported)	$m	**22**	**(15)**	**(5)**	**(31)**	**(52)**
NPAT (adjusted)	$m	**22**	**(15)**	**(5)**	**(31)**	**(52)**

CASH FLOW STATEMENT

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
OPERATING CASH FLOW						
Receipts from customers	$m	121	103	56	46	52
Payments to suppliers and employees	$m	(112)	(62)	(85)	(42)	(45)
Tax paid	$m	-	-	-	-	-
Net interest	$m	0	(1)	(1)	(30)	(55)
Other	$m	-	-	-	-	-
Operating cash flow	$m	**9**	**40**	**(29)**	**(25)**	**(49)**
INVESTING CASH FLOW						
Capex	$m	(17)	(143)	(277)	(222)	(157)
Disposal of assets	$m	-	-	-	-	-
Other	$m	0	0	-	-	-
Investing cash flow	$m	**(17)**	**(143)**	**(277)**	**(222)**	**(157)**
FINANCING CASH FLOW						
Debt proceeds/(repayments)	$m	-	-	531	225	-
Dividends paid	$m	-	-	-	-	-
Proceeds from share issues (net)	$m	46	256	-	-	-
Other	$m	(0)	(0)	50	-	-
Financing cash flow	**$m**	46	256	581	225	-
Change in cash	**$m**	**42**	**79**	**232**	**507**	**484**
Free cash flow	$m	(8)	(103)	(306)	(247)	(206)

BALANCE SHEET

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
ASSETS						
Cash	$m	79	232	507	484	279
Receivables	$m	56	21	6	7	8
Inventories	$m	-	-	-	-	-
Capital assets	$m	59	197	468	686	839
Other assets	$m	33	88	88	88	88
Total assets	**$m**	**228**	**538**	**1,070**	**1,266**	**1,214**
LIABILITIES						
Creditors	$m	38	57	12	14	14
Borrowings	$m	-	20	630	855	855
Provisions	$m	16	17	17	17	17
Other liabilities	$m	2	10	10	10	10
Total liabilities	**$m**	**55**	**104**	**670**	**896**	**897**
NET ASSETS	**$m**					
Share capital	$m	313	569	569	569	569
Reserves	$m	6	27	(2)	(2)	(2)
Accumulated losses	$m	(147)	(162)	(167)	(198)	(250)
Non-controlling interest	$m	-	-	-	-	-
SHAREHOLDER EQUITY	**$m**	**173**	**434**	**400**	**369**	**317**
Weighted average shares	m	548	913	1,206	1,206	1,206

FINANCIAL RATIOS

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
VALUATION						
EPS	Ac/sh	4.0	(1.7)	(0.4)	(2.5)	(4.3)
EPS growth (Acps)	%	-19%	-142%	na	na	na
PER	x	6.3x	-15.0x	-58.3x	-10.1x	-5.9x
DPS	Ac/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	Ac/sh	(1.4)	(11.3)	(25.4)	(20.5)	(17.0)
FCF yield	%	-5%	-44%	-100%	-80%	-67%
EV/EBITDA	x	3.3x	-9.3x	123.3x	27.9x	14.0x
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(79)	(212)	123	371	576
Net debt / Equity	%	-46%	-49%	31%	100%	182%
Net debt / Net debt + Equity	%	-85%	-96%	24%	50%	64%
Net debt / EBITDA	x	-2.7x	20.5x	156.8x	106.9x	83.6x
EBITDA /net int expense	x	103.3x	-19.0x	-1.3x	-0.1x	-0.1x
PROFITABILITY RATIOS						
EBITDA margin	%	18%	-16%	2%	7%	13%
EBIT margin	%	14%	-25%	-11%	-2%	6%
Return on assets	%	12%	-4%	-1%	-3%	-4%
Return on equity	%	16%	-5%	-1%	-8%	-15%

ASSUMPTIONS - Prices (nominal)

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
Iron ore price (62% CFR China)	US$/t	155	138	105	93	93
Salt price (CFR Asia)	US$/t			-	45	45
SOP price (FOB Australia)	US$/t			-	-	238
FX	US$/A$	0.75	0.73	0.70	0.70	0.72

ASSUMPTIONS - Sales (equity)

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
Iron ore sales	Mt	6.0	4.8	3.2	4.4	4.8
Salt sales	Mt	-	-	-	0.5	2.4
SOP sales	kt	-	-	-	-	13

SEGMENT EBITDA

Year ending 30 June	Unit	2021a	2022a	2023e	2024e	2025e
Iron Valley	$m	70	28	11	13	17
Mardie Salt & SOP	$m	(34)	(21)	-	-	-
Other	$m	(6)	(18)	(10)	(10)	(10)
Total	**$m**	**29**	**(10)**	**1**	**3**	**7**

VALUATION

Shares on issue m			1,209
Shares and rights on issue m			1,224
Valuation		**A$m**	**A$/sh**
Mardie Salt & Potash project (unrisked)	$486m		
Risk discount to account for project stage	10%		
Mardie Salt & Potash project (risked)		$438m	
Iron Valley agreement		$29m	
Value of core projects (risked)		**$467m**	
Other assets		$38m	
Corporate & admin		-$100m	
Enterprise value (risked)		$404m	
Net debt / (cash) (including raising)		-$212m	
Equity value of core projects (risked)		**$616m**	**$0.50/sh**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analysts			
John Hester	Healthcare	612 8224 2871	jhester
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Tara Speranza	Healthcare	612 8224 2815	tsperanza
Michael Ardrey	Industrials	613 9256 8782	mardrey
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Olivia Hagglund	Industrials	612 8224 2813	ohagglund
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Regan Burrows	Resources	618 9326 7677	rburrows
Joseph House	Resources	613 9235 1624	jhouse
Associates			
Daniel Laing	Associate Analyst	613 9256 2886	dlaing
Thomas Sima	Associate Analyst	612 8224 2843	tsima

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Analyst, Joseph House, has a long position in BCI.

Bell Potter Securities Limited
ABN 25 006 390 772
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited
Room 1701, 17/F
Prosperity Tower, 39 Queens Road Central, Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC
Floor 39
444 Madison Avenue, New York NY 10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited
16 Berkeley Street London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929