

## Valuation up due to bigger plant, lower costs and higher prices

### Recommendation

**Strong BUY, High Risk**

### Price

**12c**

### Valuation

**36c**

### Commodity

**Lithium**

- **AJM now 36Mt of Resources for 372kt contained Li<sub>2</sub>O, plus potential, makes 2.0Mt/yr plant our base case, for over 300kt/yr of concentrate grading above 6% in early, high grade, years.**
- **A bigger plant gives greater capital efficiency and lower unit operating costs.**
- **Li<sub>2</sub>O concentrate prices are now much higher. Beer & Co raises the price used for valuation from \$400/t to \$450/t.**
- **A recent placement was made at a higher price than we expected, so less equity issued.**
- **All four factors, plus lower risking, drive an increase in our valuation, from 12c/share to 36c/share.**

### Snapshot

Market Cap	\$112m
Cash on hand (31 Dec 2015)	\$1.28m
Net Debt	(\$16.1m)
Shares on Issue	930m
52 Week High	12.5c
52 Week Low	0.9c
1 month / 6 month VWAP	8.8c / 5.7c

### AJM : More Resources, higher throughput

AJM announced the result of the Pre-Feasibility Study of the mining at its Pilgangoora spodumene project on 11 February, 2016. A feature of that study was the larger resource, due to higher prices allowing a lower cut-off grade. Contained Li<sub>2</sub>O increased from 315kt to 372kt.

The larger resource, coupled with strong evidence of further mineralisation, gives Beer & Co the confidence to increase the mining inventory and make the base case a 2.0Mt/yr operation.

### Higher spodumene prices

Our 1 February report showed the price for 99.5% Li<sub>2</sub>CO<sub>3</sub> increasing from about \$8,000/t in November to \$22,000/t by February.

A contract for 2016, at US\$ 600/t for 5.5% Li<sub>2</sub>O material, was recently announced. Beer & Co has heard of \$800/t sales for higher grade product. Beer & Co is raising the price used on our valuation, from \$400/t to \$450/t.

### MOU announced, plus placement

On 22 February 2016, AJM announced a Letter of Intent to supply 100kt/yr to 150kt/yr of concentrate to Lionergy, which subscribed for a placement of \$A 3m of AJM shares at 8.1c/share, which was settled on 7 March.

On 29 February, AJM announced an MOU to supply 100kt – 150kt/yr of concentrate to Optimum Nano, which produces Lithium Ferro-Phosphate batteries and supplies systems for electric vehicles

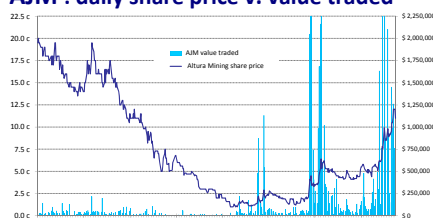
### Beer & Co risked valuation now 36c/share

Higher throughput, gives lower costs, plus higher prices, and less equity due to the higher share prices, all raise Beer & Co's risked valuation.

### Beer & Co conclusions

Beer & Co raises our recommendation to Strong BUY, High Risk.

### AJM : daily share price v. value traded



AJM originally listed as Haddington Resources (HDN.ASX) in January 2001. It produced tantalite from July 2001 until September 2005. Pilgangoora was acquired in November 2001.

Following a change in management in December 2008, the company name was changed in November 2009.

AJM has exited its 30% of the Mt Webber iron ore operations and is seeking to list its Indonesian coal on the SGX, to focus on Pilgangoora spodumene.

A feasibility Study is expected soon.

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## Mining Pre-Feasibility Study

### Updated Mineral Resource Estimate

On 11 February, 2016, AJM announced the results of its Mining Pre-Feasibility Study for Pilgangoora. This study updated components of AJM's November 2012 scoping study, on which Beer & Co's initiation report on AJM was based.

Figures 1 and 2 compare AJM's Mineral Resource Estimate as at 14 September 2015, with the revised Resource estimate, announced with the mining pre-feasibility study.

**Figure 1 : AJM's previous Resource Estimate**

Resources Category	cut-off Li <sub>2</sub> O	Li <sub>2</sub> O	
		grade	contained
Measured	0.80 %		
Indicated	0.80 %	19.77 Mt	1.21 % 239,000 t
Inferred	0.80 %	6.29 Mt	1.20 % 76,000 t
<b>TOTAL</b>		<b>26.06 Mt</b>	<b>1.21 % 315,000 t</b>

Source : AJM ASX announcement, 14 September 2015

**Figure 2 : AJM's current Resource Estimate**

Resources Category	cut-off Li <sub>2</sub> O	Li <sub>2</sub> O	
		grade	contained
Measured	0.40 %		
Indicated	0.40 %	26.7 Mt	1.05 % 280,000 t
Inferred	0.40 %	9.0 Mt	1.02 % 92,000 t
<b>TOTAL</b>		<b>35.7 Mt</b>	<b>1.04 % 372,000 t</b>

Source : AJM ASX announcement, 11 February 2016

#### Updated Mineral Resource Estimate due to lower cut-off grade.

Comparing Figure 1 and Figure shows that

- The total volume of resources has increased from 26.06Mt to 35.7Mt;
- The total contained Li<sub>2</sub>O has increased from 315kt to 372kt;
- The cut-off grade was reduced, from 0.8% to 0.4%; and
- The average grade has fallen from 1.21% to 1.04%.

#### Lower cut-off grade due to higher prices and lower costs

The increase in the volume of resources is due to the lower cut-off grade, rather than a review of the geology.

The lower cut-off-grade is due to a combination of

- Higher product prices; and
- Lower unit costs, as costs have generally eased since late in 2012, especially for oil and also for steel and labour / contractor rates.

### Beer & Co's Mining Inventory

Figure 3 shows the Mining Inventory assumed by Beer & Co in our previous research report on AJM, and contrasts that with the mining inventory we are now using.

**Figure 3 : Previous Mining Inventory**

Starter	2.5 Mt	1.60 %	40 kt
High grade	4.0 Mt	1.35 %	54 kt
Standard	12.5 Mt	1.20 %	150 kt
Low grade	6.0 Mt	1.00 %	60 kt
<b>TOTAL</b>	<b>25.0 Mt</b>	<b>1.22 %</b>	<b>304 kt</b>

Source : Beer & Co, 1 February 2016 AJM report

**Figure 4 : Updated Mining Inventory**

Starter	3.0 Mt	1.70 %	51 kt
High grade	8.0 Mt	1.30 %	104 kt
Standard	17.0 Mt	0.95 %	162 kt
Low grade	7.0 Mt	0.70 %	49 kt
<b>TOTAL</b>	<b>35.0 Mt</b>	<b>1.04 %</b>	<b>366 kt</b>

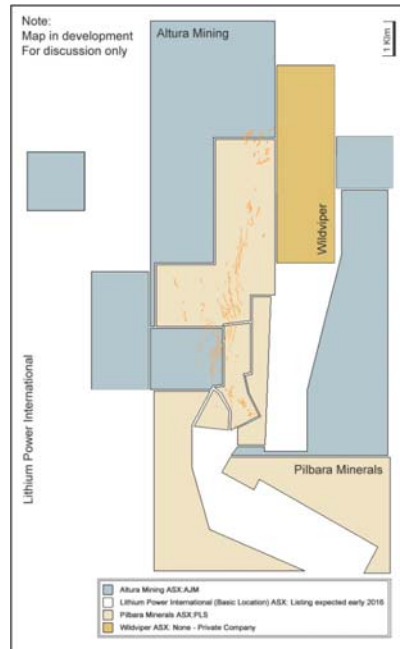
Source : Beer & Co estimates

Comparing Figure 3 with Figure 1, and Figure 2 with Figure 4, shows a very high rate of conversion. Beer & Co is giving this very high rate of conversion due to further areas of mineralisation, as evidenced by out-cropping pegmatites, that Beer & Co believes will be included in the estimate when sufficient drilling has been done.

Figure 5 shows mapped pegmatites in the Pilgangoora area. It clearly shows the structures are mostly in the tenements of Pilbara Minerals (PLS.ASX), but run through the AJM tenements in the south, and into the AJM tenement area to the north.

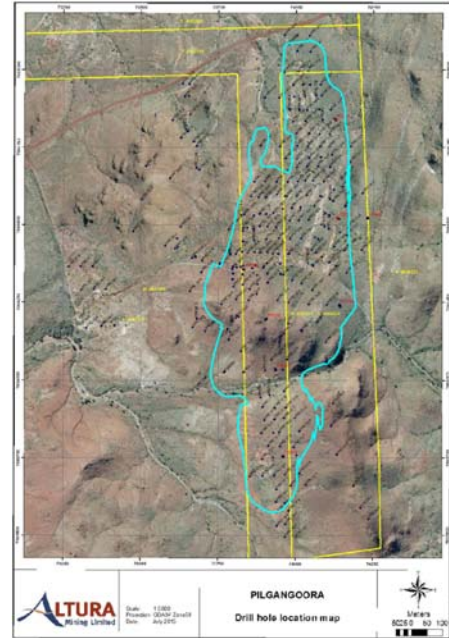
Beer & Co is optimistic that the increase in resources will translate to a bigger mining inventory, due to presence of significant further mineralisation.

Figure 5 : known Pegmatites



Source : Company

Figure 6 : drilling v. Resources



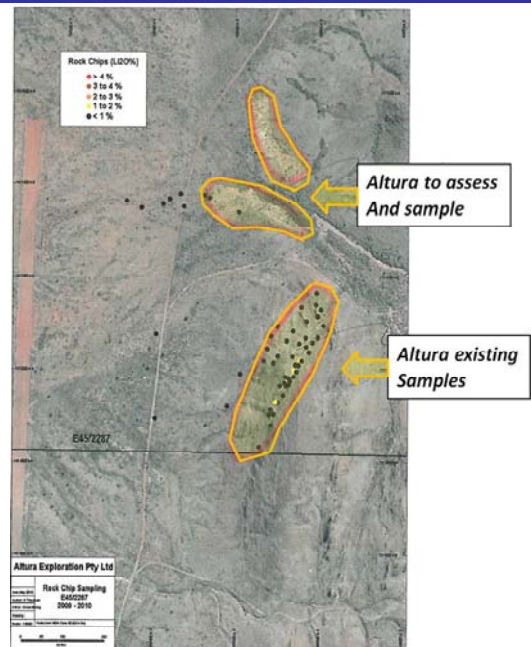
Source : Company

Figure 6 show the drilling carried out by AJM, with the outline of the area included in the resource estimate in blue.

It shows that the mineralisation continues to the north of AJM’s tenement area, and the most northerly of the drilling is NOT included in the resource estimate as AJM does not have in place an agreement with PLS that would allow both parties to extract ore up to the tenement boundary.

Figure 7 is an aerial photograph clearly showing out-cropping pegmatites and locations where AJM has taken some high grade samples.

Figure 7 : Sampling in the northern area



Source : Company

### Capital and Operating Costs

Our op.ex estimates have been proven to be too high.

Figure 8 compares other key data from AJM’s 11 February announcement with the estimates made by Beer & Co in our previous analysis.

It shows our estimated capital cost was lower, but our C1 cash cost estimate, in terms of AUD /t of ore, was much higher.

Figure 8 : Beer & Co’s estimates v AJM

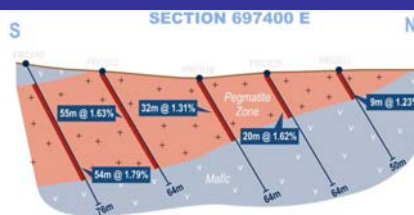
	Beer & Co	AJM, 1.0Mt/yr	AJM, 2.0Mt/yr
Water to Ore	5.1 : 1	2.8 : 1	2.8 : 1
Cash costs (C1)	\$A 43.4/t	\$A 37.36/t	\$A 34.87/t
Capital	\$A 82m	\$A 97.6m	\$A 146.7m

Source : AJM ASX announcement, 11 February 2016; Beer & Co estimates

Figure 9 shows that AJM’s Pilgangoora has significant width its ore-body, outcropping ore, and only a shallow dip.

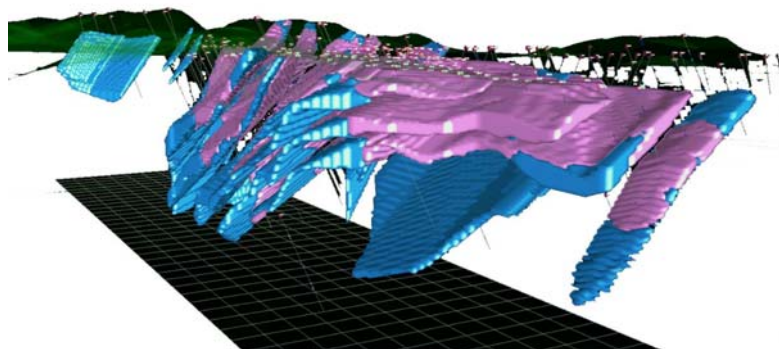
Figure 10 shows this in more detail. Note that the pink is the area of the Indicated Resource and the blue is Inferred. It shows that Pilgangoora has multiple stacked lodes.

Figure 9 : cross section of ore body



Source : AJM presentation, February 2016

Figure 10 : AJM’s resource at Pilgangoora



Source : AJM presentation, February 2016

Figure 11 shows Beer & Co’s revised operational outcomes for AJM’s Pilgangoora project. It shows that Beer & Co has assumed that AJM’s concentrate will be 6.2% Li<sub>2</sub>O.

This is based on the advice in in AJM’s 11 February advice that the plant will aim to produce a 6% Li<sub>2</sub>O concentrate. However, AJM’s 2 November 2015 announcement to the ASX on the results of their metallurgical testwork showed that concentrate produced graded around 7.5% Li<sub>2</sub>O.

Figure 11 : Beer & Co’s revised projected operational outcomes for Pilgangoora

	Life of Mine	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2303-31	2031-32	2032-33	2033-34	2034-35
Ore mined	35,000 kt	1,325 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	1,675 kt
Mining Inventory	35.0 Mt	33.7 Mt	31.7 Mt	29.7 Mt	27.7 Mt	25.7 Mt	23.7 Mt	21.7 Mt	7.7 Mt	5.7 Mt	3.7 Mt	1.7 Mt	0.0 Mt
	1.04 %	1.02 %	0.98 %	0.96 %	0.93 %	0.90 %	0.87 %	0.87 %	0.72 %	0.70 %	0.70 %	0.70 %	0.00 %
waste : ore	2.9 : 1	2.6 : 1	2.6 : 1	2.7 : 1	2.7 : 1	2.8 : 1	2.8 : 1	2.8 : 1	3.1 : 1	3.2 : 1	3.2 : 1	3.2 : 1	3.3 : 1
Waste moved	103,197 kt	3,460 kt	5,290 kt	5,370 kt	5,450 kt	5,530 kt	5,610 kt	5,690 kt	6,250 kt	6,330 kt	6,410 kt	6,490 kt	5,497 kt
Ore Processed	35,000 kt	1,325 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	2,000 kt	1,675 kt
Li <sub>2</sub> O grade	1.04 %	1.70 %	1.70 %	1.33 %	1.30 %	1.30 %	1.30 %	0.98 %	0.95 %	0.85 %	0.70 %	0.70 %	0.70 %
Recovery	79.5 %	72 %	80 %	80 %	80 %	80 %	80 %	80 %	80 %	80 %	80 %	80 %	80 %
Li <sub>2</sub> O recovered	294,165 t	16,284 t	27,168 t	21,313 t	20,752 t	20,752 t	20,752 t	15,657 t	15,168 t	13,531 t	11,200 t	11,200 t	9,380 t
Conc grade	6.2 %	6.2 %	6.2 %	6.2 %	6.2 %	6.2 %	6.2 %	6.2 %	6.2 %	6.2 %	6.2 %	6.2 %	6.2 %
Li <sub>2</sub> O concentrate	4,745 kt	262,642 t	438,194 t	343,765 t	334,710 t	334,710 t	334,710 t	252,526 t	244,645 t	218,245 t	180,645 t	180,645 t	151,290 t

Source : Beer & Co estimates

However, that announcement did not include advice on the recovery of Li<sub>2</sub>O from ore to concentrate, which Figure 10 shows has been assumed by Beer & Co to be 80%.

Figure 11 also shows that Beer & Co's model has a strip ratio that rises over time, for a Life of Mine average of 2.9 : 1.

Figure 12 shows Beer & Co's revised costs. It shows that our calculated C1 costs is in line with the advice in AJM's 11 February announcement of C1 costs of \$34.87/t of ore processed.

**Figure 12 : Beer & Co's revised projected cash costs for Pilgangoora**

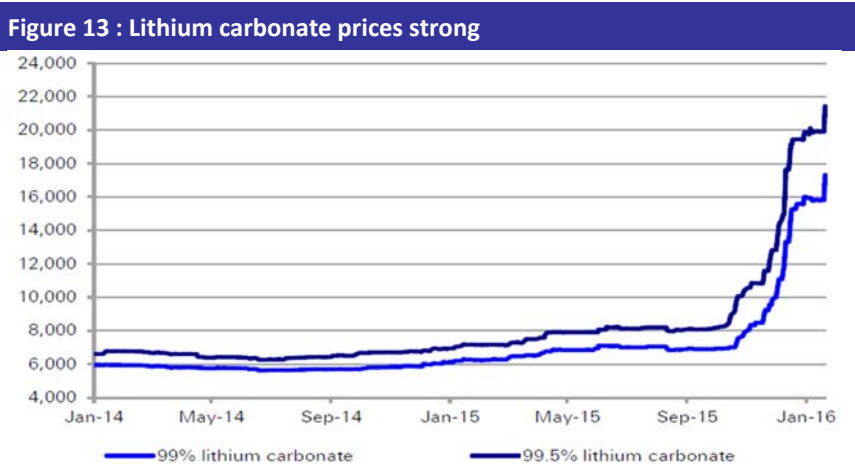
	LoM	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2303-31	2031-32	2032-33	2033-34	2034-35
Waste		\$ 7.1m	\$ 10.1m	\$ 10.4m	\$ 10.6m	\$ 10.7m	\$ 10.9m	\$ 11.0m	\$ 12.0m	\$ 12.2m	\$ 12.3m	\$ 12.5m	\$ 10.9m
volume		3,460 kt	5,290 kt	5,370 kt	5,450 kt	5,530 kt	5,610 kt	5,690 kt	6,250 kt	6,330 kt	6,410 kt	6,490 kt	5,497 kt
Strip ratio	<b>2.9 : 1</b>	2.6 : 1	2.6 : 1	2.7 : 1	2.7 : 1	2.8 : 1	2.8 : 1	2.8 : 1	3.1 : 1	3.2 : 1	3.2 : 1	3.2 : 1	3.3 : 1
AUD /t ore	<b>\$ 5.7/t</b>	5.3	5.0	5.2	5.3	5.4	5.4	5.5	6.0	6.1	6.2	6.2	6.5
AUD /t material	<b>\$ 1.9/t</b>	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.0
Ore Mining		\$ 6.8m	\$ 9.6m	\$ 9.7m	\$ 9.9m	\$ 10.3m	\$ 10.4m	\$ 10.5m	\$ 11.2m	\$ 11.3m	\$ 11.4m	\$ 11.5m	\$ 10.0m
AUD /t ore	<b>\$ 7.1/t</b>	7.2	6.5	6.6	6.6	6.8	6.9	6.9	7.3	7.3	7.4	7.4	7.8
Processing		\$ 15.9m	\$ 22.8m	\$ 22.8m	\$ 22.8m	\$ 22.8m	\$ 22.8m	\$ 22.8m	\$ 22.8m	\$ 22.8m	\$ 22.8m	\$ 22.8m	\$ 19.4m
AUD /t ore	<b>\$ 11.4/t</b>	12.0	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.4	11.6
Admin & Overhead		\$ 2.8m	\$ 3.5m	\$ 3.5m	\$ 3.5m	\$ 3.5m	\$ 3.5m	\$ 3.5m	\$ 3.5m	\$ 3.5m	\$ 3.5m	\$ 3.5m	\$ 3.0m
AUD /t ore	<b>\$ 1.8/t</b>	2.1	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.8
Concentrate Transport		\$ 17.3m	\$ 28.8m	\$ 22.6m	\$ 22.0m	\$ 22.0m	\$ 22.0m	\$ 16.6m	\$ 16.1m	\$ 14.3m	\$ 11.9m	\$ 11.9m	\$ 9.9m
AUD /t ore	<b>\$ 8.9/t</b>	13.0	14.4	11.3	11.0	11.0	11.0	8.3	8.0	7.2	5.9	5.9	5.9
AUD /t conc		66	66	66	66	66	66	66	66	66	66	66	66
<b>TOTAL</b>		<b>\$ 49m</b>	<b>\$ 50m</b>	<b>\$ 75m</b>	<b>\$ 69m</b>	<b>\$ 69m</b>	<b>\$ 70m</b>	<b>\$ 64m</b>	<b>\$ 66m</b>	<b>\$ 64m</b>	<b>\$ 62m</b>	<b>\$ 62m</b>	<b>\$ 53m</b>
<b>AUD /t ore</b>		<b>\$ 34.9/t</b>	<b>\$ 40/t</b>	<b>\$ 39/t</b>	<b>\$ 36/t</b>	<b>\$ 36/t</b>	<b>\$ 36/t</b>	<b>\$ 34/t</b>	<b>\$ 35/t</b>	<b>\$ 34/t</b>	<b>\$ 33/t</b>	<b>\$ 33/t</b>	<b>\$ 34/t</b>

Source : Beer & Co estimates

## Revising our Spodumene Prices

Figure 13 comes from our 1 February report on AJM, and shows how lithium carbonate prices have increased, while Figure 14 also comes from that report and shows come response for spodumene prices.

Product prices are much stronger than we expected



Source : Asian Metals, Beer & Co

**Figure 14 : Strong prices for spodumene concentrate**

USD /t	cif USA		cif Europe		cif Asia	
	High	Low	High	Low	High	Low
>7.5% Li <sub>2</sub> O	772	854	740	790	725	775
5% Li <sub>2</sub> O	463	496	450	500	350	410

Source : Industrial Minerals, February 2016

Figure 15 shows the FOB price for lithium concentrate exported from Australia in 2014 and 2015.

It shows prices increasing and support the view of prices higher than \$400/t, which Beer & Co has used in our analyses.

**Figure 15 :Australian export prices**

Jan - Sept 2015	Jan - Sept 2014	Calendar Year 2014
351,624 t	270,142 t	432,695 t
US\$ 494 /t	US\$ 441 /t	US\$ 431 /t

Source : Signum BOX, Port of Bunbury

**A recently announced supply agreement for 2016 gives an equivalent price of US\$ 675/t, FOB for AJM concentrate**

**Compared with \$400/t in Beer & Co's original valuation**

On 8 March, 2016, General Mining Corporation (GMM.ASX) and Galaxy Resources (GXY.ASX) announced that their Joint venture at Mt Caitlin (WA) had announced a sales agreement for 2016. The announced agreement was

- For a total of 60kt of concentrate for 2016;
- Plus a further 120kt in 2017;
- Minimum grade of 5.5% Li<sub>2</sub>O
- Price of US\$ 600/t FOB for 2016,
- Price for 2017 supply to be agreed during 2016 Q4; and
- 50% of 2016 order (US\$ 18m) to be paid by 31 march 2016.

Adjusting the price from 5.5% Li<sub>2</sub>O to 6.2% Li<sub>2</sub>O, without any further adjustment for the increased volume of waste material, gives a comparable value of US\$ 675/t for the purposes of this analysis.

As a result, Beer & Co is revising the spodumene concentrate price used in our analyses from \$400/t to \$450/t.

We expect that our upwardly revised value is still too low.

## AJM's Spodumene Sales

On 22 February, 2016, AJM announced that it had signed a Letter of Intent to take a minimum of 100kt/yr, and up to 150kt/yr, of spodumene concentrate.

On 29 February, AJM announced an MOU for offtake with Optimum Nano, which is a Shenzhen based lithium battery and electric vehicle producing group.

Below is a link to the Optimum Nano web-site for more information.

[http://www.optimumnanoenergy.com/index/&FrontColumns\\_navigation01-1364383333954FirstColumnId=1.html](http://www.optimumnanoenergy.com/index/&FrontColumns_navigation01-1364383333954FirstColumnId=1.html)

**AJM has secured product sales with an end user and a distributor**

We also highlight that Optimum Nano is based in Shenzhen, while most of the lithium battery industry in China is based in the Chengdu area.

Beer & Co understands that the agreement with Optimum Nano is part of, but not all of, the agreement with Lionergy.

Beer & Co understands that while Lionergy is a very new company, its two principals have significant commercial experience, with each having over 20 years :

- One from a physical metals / material trading background;
- The other from the lithium industry in China.

The agreement with Lionergy allows for Lionergy to supply a number of consumers of spodumene that will take smaller volumes, such as 10kt – 15kt a year.

## Revised Valuation

### Base Case

Figure 16 shows the detail of Beer & Co's revised valuation of AJM.

**Figure 16 : Beer & Co's revised valuation of AJM**

	discount rate = 12.0 %	30 June 2015			9-Mar-16
		risk :	100%	Product	per share
Pilgangoora Resources	75 %	\$ 603m	\$ 452m	28.4 c	30.1 c
franking credits	45 %	\$ 105m	\$ 47m	3.0 c	3.1 c
Pilgangoora Extensions	45 %	\$ 22m	\$ 10m	0.6 c	0.7 c
franking credits	27 %	\$ 5m	\$ 1m	0.1 c	0.1 c
Indonesian Coal	75 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Mininig Services	75 %	(\$ 2m)	(\$ 2m)	(0.1c)	(0.1c)
Philippines Coal	75 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Mt Webber Iron Ore	75 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Lithium Corp	75 %	\$ 0m	\$ 0m	0.0 c	0.0 c
Corporate	100 %	(\$ 11m)	(\$ 11m)	(0.7c)	(0.7c)
Cash / Debt	100 %	(\$ 15m)	(\$ 15m)	(1.0c)	(0.0c)
Equity raisings	100 %	\$ 44m	\$ 44m	2.8 c	2.7 c
<b>TOTAL</b>		<b>\$ 751m</b>	<b>\$ 527m</b>	<b>33.2 c</b>	<b>35.9 c</b>
Shares on issue	837.7m	F P O shares	197.7m	Options	
	37.0m	2015 - 16	197.7m	Ops. Ex'd	
	508.8m	later	9.1m	Perf Rights	

Source : Beer & Co estimates

Beer & Co's risked, base case valuation has been raised from 12c to 36c/share

Due to range of factors, including Higher throughput Lower op costs and Higher product price

Beer & Co's valuation of AJM has increased from 12c to 36c for a number of reasons, including :

- Lower operating costs overall;
- Higher throughput and consequently lower operating costs;
- Offset partly by higher capital costs; and
- Higher product prices.

Figure 16 also shows that Beer & Co expects AJM to issue a further 508.8m new shares to raise the equity required for the capital required to be invested to bring Pilgangoora into operation.

This compares with 593.3m in our previous analysis, reflecting a lower share price at that time and hence more share to be issued, despite the higher amount of capital and hence equity to be raised.

Figure 17 shows how each of these factors has added to our valuation of AJM, noting that the conjoint impact of these factors can lead to errors in the dissection; eg. a longer mine life at lower grades has little value in the absence of lower costs (as should be expected).

**Figure 17 : How Beer & Co's valuation of AJM has increased**

Original	Lower Costs	More Resources	Higher Throughput	Less Scrip	Less Risk	Higher Prices
<b>12.1 c</b>	13.9 c	14.1 c	26.2 c	26.8 c	28.3 c	<b>35.9 c</b>

Source : Beer & Co estimates

Figure 17 clearly shows that the major value drivers are :

- The increase in the rate of throughput, from 1.0Mt/yr to 2.0Mt/yr and the impact that this has on costs and cashflow; and
- The increase in product prices.

## Sensitivity Analyses

Figure 18 shows the results of Beer & Co's sensitivity of our valuation to changes in

- Prices for spodumene concentrate; and
- Risk.

Figure 18 shows that at current spodumene prices, the valuation of AJM will be much higher than our current valuation.

**Figure 18 : Sensitivity of Beer & Co valuation**

	US\$ 400 /t	US\$ 450 /t	US\$ 500 /t	US\$ 550 /t	US\$ 600 /t
Base Case	28 c	36 c	44 c	51 c	59 c
Un-Risked	44 c	48 c	58 c	69 c	79 c

Source : Beer & Co estimates

Figure 18 also shows a significant increase in value from successful project delivery (ie. the un-risked valuation).

## Conclusions

**Beer & Co sees further upside potential to our valuation**

Beer & Co is raising our valuation on AJM, from 12c to 36c due to a combination of :

- Lower operating costs overall;
- Higher throughput and consequently lower operating costs;
- Offset partly by higher capital costs; and
- Higher product prices.

**Beer & Co raises out recommendation to a Strong BUY, High Risk**

Beer & Co believes there is further significant upside potential to our valuation from

- Higher spodumene prices, as the price used in our valuation is
- Fewer new shares being issued to raise the capital to bring the project into operation, due to a higher share price and potential interest from AJM's Chinese partners; and
- Successful project delivery.

As our valuation is now a clear multiple to the current share prices, Beer & Co is raising our recommendation to a Strong BUY, High Risk.





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