



Transit Holdings Ltd (ASX:TRH)

Speculative Buy

High Grade Sylvinitite...Ready to Drill

Current Price \$0.72

Analyst:

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Capital Summary

Ordinary shares on issue	46.2m
In-money options	5.25m
Performance shares	3,000
Market Capitalisation (diluted)	\$37.0m
52 week low	\$0.13
52 week high	\$0.955
Share Price (20/05/11)	\$0.72
Cash	\$3.3m

Directors & Management

Ananda Kathiravelu	Non-Executive Chairman
Ben Binninger	CEO
Richard Monti	Executive Director
Sean Murray	Non-Executive
Brian Thomas	Non-Executive
Morgan Barron	Company Secretary

Share Price Graph (A\$)



Major Shareholders

Dreampt Pty Ltd	4.6m	10.2%
Riverview Corp Pty Ltd	3.5m	7.7%
Greatcity Corp Pty Ltd	2.3m	5.0%
Bark NSW Pty Ltd	1.9m	4.1%
Zebon Two Pty Ltd	1.6m	3.4%

See: www.transitholdings.com.au

Key Points

- Our recent site visit has confirmed the quality of the Project and local infrastructure
- Right-of-Way granted by the BLM (Bureau of Land Management) to access State leasing blocks
- The drilling of 4-5 boreholes is set to commence in July/August
- State authorities due to release approvals for drilling on State owned blocks in the coming days
- Scoping study confirms the Project is amenable for solution mining
- US based Ben Binninger recently appointed CEO to drive potash project
- We anticipate a re-rating of the stock should the upcoming drilling programme be successful
- Intrepid Potash Inc (IPI:NYSE) successfully producing potash from solution mining just 10km to the north of Transit's Project

Our View

The project is located in the Paradox Basin and lies within an area which holds significant potash potential. The potash beds were previously identified from hydrocarbon drilling throughout Transit's land holding. Many potash beds have been identified in the area with Transit only focussing on the thickest and highest grade sylvinitite beds that are amenable to solution mining.

A scoping study undertaken by ProMet Engineers and assisted by Agapito Associates Inc, released an exploration target of 2.3 billion tonnes at 32.8% KCl over the total lease area. A more detailed study covered a highly prospective area of 42 sq kms, which is only 12% of Transit's total prospective land holdings. Agapito calculated a production rate of 2 million tonnes of potash per year from this area alone, which gives a 25 year mine life.

We believe Transit's potash project is located in one of the most sought-after positions within the Paradox Basin. The Project has a number of positive attributes, including, close proximity to quality infrastructure, flat topography, flat lying potash beds and a high grade sylvinitite target.

Company Overview

Transit Holdings Limited (“Transit” or “the Company”) listed on the Australian Stock Exchange Ltd in 2006.

Potash

Transit will hold 90% interest in the project since K₂O Resources has indicated not to contribute to expenditure

In 2008, Transit acquired 100% of the shares in Citadel Potash Pty Ltd (“Citadel Australia”), which in turn holds 100% of the issued capital in Citadel Capital Holdings Inc (“Citadel USA”). Citadel USA had entered into an Operating Agreement with K₂O Resources LLC to earn an initial 75% interest in K₂O Utah LLC, an entity that holds the Paradox Basin Potash Project (PBPP) in Utah, USA, by the expenditure of US\$708,500. As part of the agreement, Transit issued performance shares to the vendors of Citadel Australia which will convert to fully paid ordinary shares in Transit based on certain milestones being achieved.

Transit’s JV partner, K₂O Resources recently indicated that it would not be contributing to expenditure and is likely to dilute to the residual carried interest of 10%, leaving Transit with a 90% interest in the Paradox Basin Potash Project.

Iron ore

Transit currently holds a 37% interest in Radar Iron Ltd

In late December 2010, Transit’s iron ore projects were successfully spun out and listed as Radar Iron Ltd (ASX:RAD), raising \$6.8m. The two main iron ore projects are the Die Hardy Project and the Johnson Range Project. Both of which are located in the Central Yilgarn region of Western Australia. Transit currently holds a 37% interest in Radar Iron Ltd.

Paradox Basin Potash Project

The Paradox Basin lies in the south-eastern corner of Utah and continues over the border into the state of Colorado. It is an evaporate basin containing sediments from alternating cycles of ocean subsidence and accretion. These events have deposited large formations of halite (NaCl) dominant rock which in turn have precipitated Potassium Chloride (KCl, Potash) out of solution to form numerous layers of the well known potash bearing mineral, sylvinite (KCl).

Figure 1. Location of the Paradox Basin



Source: CIBC World Markets Inc.

Results from Scoping Study

Beds 13 and 18 are of greatest interest to Transit as they are the thickest and highest grade sylvinite beds

There are 23 known potash bearing beds throughout Transit's land holdings. Some of these beds include carnallite and polyhalite and other thinner beds of sylvinite. But it is beds 13 and 18 that are of greatest interest as these are the thickest and the highest grade sylvinite beds that have been recorded from the previous oil and gas drilling conducted in the area. Bed 18 is approximately 1,900m below surface, which is a feasible depth for solution mining. Greater capital expenditure is required for drilling deeper holes, however less energy will be required for the injection wells as the temperature will be higher with greater depths.

Beds are flat lying, usually less than 2° dip

The beds identified are flat lying, usually less than a 2° dip. This feature is important for productive solution mines as stratigraphy that has dipping beds of greater than approximately 5° will encounter a greater dilution from adjoining salt beds, creating a lower overall grade. It also causes engineering problems with the underground solution being extracted.

Only 12% of land holding was used in Scoping Study

After the KCl (potash) has been processed, the waste product (salt, NaCl) will be re-injected back into the mined underground caverns created from the solution mining.

A scoping study was performed by ProMet Engineers and Agapito Associates Inc, in January 2010, which used the information obtained from previous oil and gas wells. The study was conducted on 42 sq kms within Transit's land holding, represents just 12% of their total land holding. Only bed 18 was used for the study.

Table 1. Results from Scoping Study

Parameters	Assumptions
Annual Potash Production	2mt/year of KCl
Initial Mine Life	25 years
Projected Potash Price	US\$500 – US\$700/t KCl FOB
Estimated Capital Cost	US\$2.4 billion
Solution Mining	US\$11/tonne
Processing	US\$45/tonne
Transport	US\$88/tonne
Sustaining Capital (Plant and Mining)	US\$39/tonne
Total OPEX (ex Sustaining Capital)	US\$144/tonne

Results of the study include;

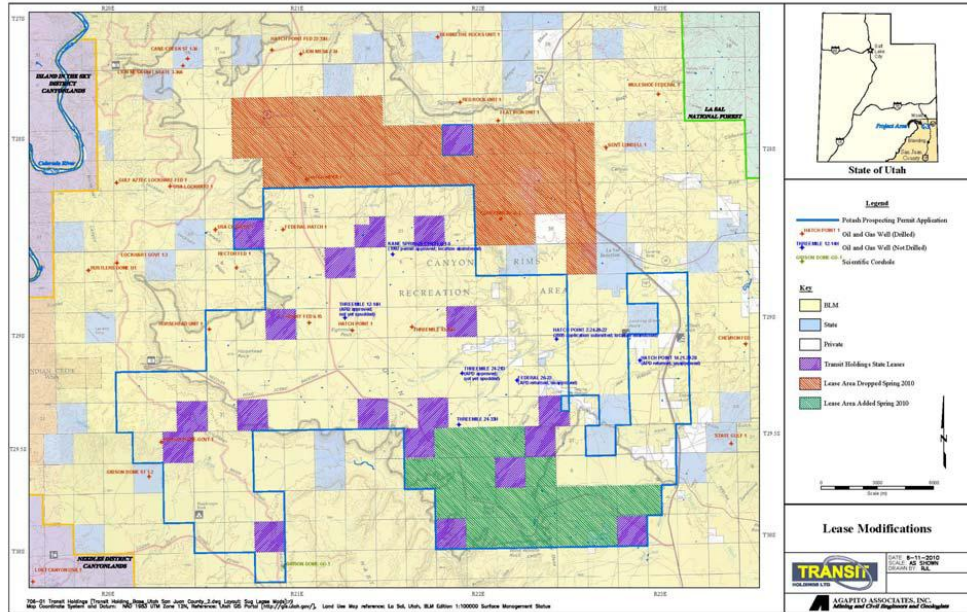
Combined thickness of bed 18 is 8.5m thick at 32.8% KCl

- Upper and lower horizon of bed 18 is **8.5m thick at 32.8% KCl**
- Recovery factors include -
 - Extraction ratio, 32%
 - Loss to geologic anomalies, 20%
 - Plant efficiency, 95%
 - Brine loss to cavern, 20%
 - **Net recovery ~20%**
- Potash prices as projected by British Sulphur Consultants (part of the CRU Group, UK)
- Transport costs were estimated on worst case scenario, which in this case was trucking to Moab, then south by rail to Flagstaff, then west to Long Beach for Asian export. We believe transport costs would reduce significantly if product was sold domestically within USA.

Transport costs are for worst case scenario

Permitting Process

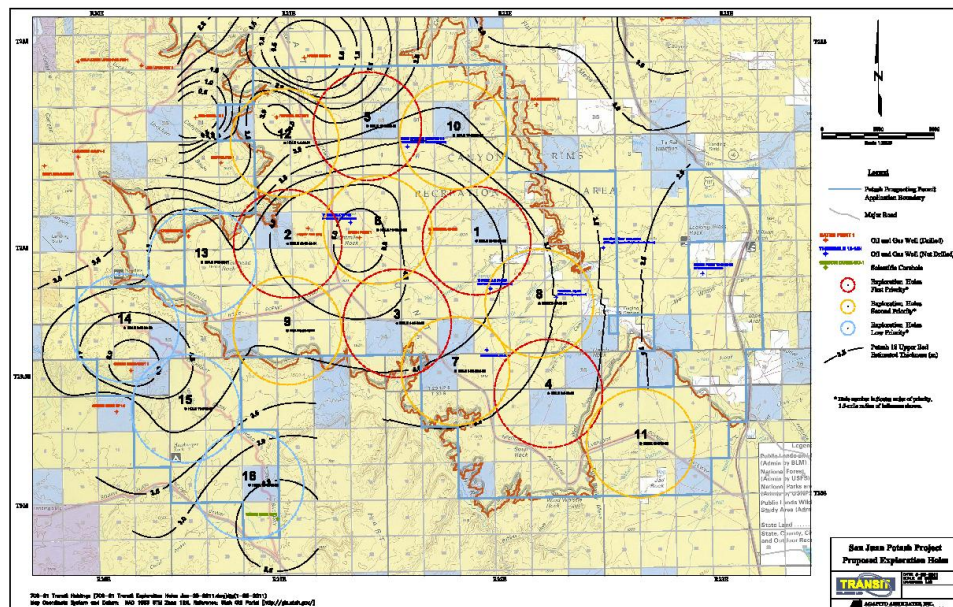
Figure 2. Tranist's land holdings. Solid blue line indicates tenement boundary, orange area is dropped ground, and green area obtained ground. Small purple squares show state blocks.



Transit's land holding is made up of two separate land titles – Federal land and State land

Transit's land holdings are made up of two separate land titles, one being the federal owned land, which is the BLM (shown in yellow above) and other being state owned land (shown in purple above). Approvals for drilling on state owned land is far easier to obtain than for the Federal land from the BLM. The recent announcement from Transit on the 19th April was a right-of-way permission from the BLM for Transit to cross Federal land to access the State lease blocks for drilling. Therefore once the State authorities grant Transit their right to drill on State lease blocks (which is estimated to be end of May), Transit will have all clearances to begin their 4 hole drilling campaign. The 5th hole will require a right-of-way from BLM to access the drill site from the northern boundary. This is expected to be granted sometime during the upcoming drilling programme.

Figure 3. Shows numbered drill locations (red), and (black) contour lines indicate apparent thickness of bed 18 Upper



Transit is continuing to work with the BLM to gain access to drill on the Federal ground. The Company expects that it will be 8-12 months before the BLM grants Transit drilling permits. With the upcoming 4-5 hole programme Transit will have plenty to report on, including, drilling, assays, a maiden resource and updated scoping study. Within this time we estimate a smooth

A thorough evaluation of the selected drill sites has been completed and discussions with potential drilling contractors are approaching finalisation

transition from maiden resource study into the phase 2 drilling programme on Federal land.

A thorough evaluation of the selected drill sites has been completed by Transit and detailed discussions with potential drilling contractors are approaching finalisation. Transit has quality dedicated local personal on the ground with significant environmental and permitting experience within the local areas of south-eastern Utah.

A recent site was undertaken by Taylor Collison in May 2011

Site Visit and Local Infrastructure

A site visit was undertaken by Taylor Collison in May 2011. The trip included looking at the designated drill sites, and the local infrastructure which would be utilised by Transit upon drilling and production start up. Also a technical review with Agapito Associates Inc and other consultants used by Transit was completed during the visit.

The topography of Transit's land holding is dominantly flat lying. Major roads run through the eastern most boundaries and quality, well maintained dirt roads run through the central areas, which provide excellent access for trucks and drill rig access. This flat lying ground is also suitable for processing plant locations.

Topography of Transit's land holding is dominantly flat lying

To the east are well presented roads, rail and gas that could potentially be utilised by Transit. Irrigation and farming is plentiful immediately adjacent to Transit's eastern boundary, with constant water run-off from the La Sal mountains. This feed source of water is derived by the all-year-round snow caps from the mountains, and feeds two aquifers that run under Transit's ground. These aquifers are currently producing water from boreholes by some of the local farmers to the immediate east and south. Previous oil and gas drilling, that has been recorded to intersect potash, also recorded >100gal/minute water production from some of these wells.

Previous oil/gas drilling has recorded >100gal/min water flow rates

The south eastern parts of Utah are mineral rich with extensive exploration and production of commodities such as; potash, coal, uranium, copper and gas.

The south eastern parts of Utah has extensive mining and exploration

The Intrepid Potash mine is just 10km north of Transit's northern most boundaries and is successfully solution mining. They are mining sylvinitic (bed 5) and produce approximately 100,000t/year of KCl product. This bed 5 sylvite layer has also been identified throughout Transit's ground, but was not used in the scoping study since beds 18 upper and lower, and bed 13 were considered to be more prospective.

Major take aways from the site visit and Agapito technical review are -

The Intrepid mine is 10km north of Transit's project...they are currently solution mining

- Quality of personal on the ground in regards to permitting, knowledge of potash solution mining, and relationships with local authorities
- Quality infrastructure and resources at hand
- Local community is pro mining and the current high unemployment rate is aiding this cause
- Data obtained from numerous oil/gas wells and 2D seismic surveys gives a degree of confidence regarding the potash grades and thicknesses
- State approvals for Transit to drill 4 holes on state blocks are expected shortly and we are confident a JORC compliant resource will be established on completion of this drilling
- Advancements are being made with the Bureau of Land Management (BLM) in regard to permitting on the Federal ground

Quality infrastructure and resources at hand

Numerous logs from oil/gas wells and 2D seismic have de-risked the project

Comparison with Peers

State approvals to drill 4 holes will be granted in coming days

Table 2 shows the comparison of Transit against other TSX and ASX potash explorers and developers for their diluted enterprise values and their contained KCl in million tonnes.

Our estimated resource for Transit from initial 4 holes:

- **100mt – 200mt at 32% KCl**

We estimate an initial resource from 4 holes of 100 – 200mt at 32% KCl

We believe that the initial 4 hole drilling campaign, if successful, has the potential to outline an initial resource of 100 – 200mt at 32% KCl (32 – 64mt of contained KCl). This would result in a significant re-rating of the stock price given the recent experience of the listed peer group, shown

in Table 2.

This estimated resource potential is based only over state leased blocks. Transit cannot report a JORC compliant resource which lies over Federal ground. Therefore, a thorough resource statement, that encompasses both State and Federal grounds, can only be generated once Federal ground is permitted by the BLM.

Table 2. Comparisons with peers

Company	Code	Share Price	EV Diluted (m)	Total Resource Tonnes (mt)	Grade	Total Contained KCl (mt)	Status	Ore Type	Location	Mine Type
South Boulder Mines	STB:ASX	\$3.47	\$355	547.6	18.58% KCl	102	Explorer/Developer	Sylvinite/Carnallite	Eritrea	Open Cut
Elemental	ELM:ASX	\$3.96	\$396	804	31.0% KCl	260	Explorer	Sylvinite/Carnallite	Republic of Congo	Underground
Allana Potash	AAA:TSX	\$1.77	\$291	105	20.8% KCl	22	Explorer	Sylvinite/Kainitite	Ethiopia	Open Cut
Karnylite Resources	KLN:TSX	\$10.97	\$167	242.5	15.75% KCl	38	Developer	Carnallite	Saskatchewan	Solution
Mag Industries	MAA:TSX	\$0.21	\$147	1,401.90	17.22% KCl	241	Developer	Carnallite	Republic of Congo	Solution
Passport Potash	PPI:TSX	\$0.59	\$71	-	-	-	Explorer	Sylvinite/Carnallite	Arizona, USA	Underground
IC Potash	ICP:TSX	\$1.13	\$122	907	20.3% KCl	184.1	Developer	Polyhalite	New Mexico, USA	Solution
Western Potash	WPX:TSX	\$1.08	\$134	734	29.1% KCl	213.6	Developer	Sylvinite	Saskatchewan	Solution
Transit Holdings	TRH:ASX	\$0.72	\$27	-	-	-	Explorer	Sylvinite	Utah, USA	Solution

Note: TSX listed companies are reported in CAD. ASX listed companies are reported in AUD.

Transit appears undervalued when compared with other potash companies

Directors and Management

Mr Ananda Kathiravelu – Non-Executive Chairman

Mr Kathiravelu has been in the financial services funds management and stockbroking industries for over 15 years. He holds a Bachelor of Business and Graduate Diploma of Applied Finance and Investment, and is an associate of the securities industry of Australia.

Ananda is the Managing Director of Armada Capital Ltd, a corporate advisory company that has been involved in providing strategic corporate advice to various ASX listed companies. His areas of expertise include corporate advice, capital raising, mergers and acquisitions with a focus on junior companies and emerging businesses.

Mr Ben Binninger – Chief Executive Officer

Mr Binninger has a Masters in Business Administration from the Harvard Business School where he attended on a Teagle Foundation Fellowship. He has a Bachelor of Chemical Engineering degree from Manhattan College.

Mr Binninger is a Principal in AMT II Corporation, a private investment management company focusing on advanced materials as well as IMEX Minerals, LLC which invests in minerals assets. He is Director of Kreido Biofuels, a company he led through a public offering. He also serves on the board of The Harvard Business School Association of Southern California.

Ben has previously worked with Rio Tinto Borax, as Senior Vice President, Director and Chief Commercial Officer. He also worked with Arco Chemical Co, as Vice President, Atlantic Richfield Company (ARCO), as Manager of operations analysis, and Hercules Inc, as Vice President, Planning and Managing Director, H.C. Ltd. Mauritius.

Ben's background includes sales, marketing, distribution, operations, technology, planning financial and business development. Ben has strong expertise in strategic positioning, profit enhancement, financial restructuring, organisational realignment, funding and cost control.

Mr Richard Monti – Executive Director

Mr Monti's qualifications include Bachelor of Science in Geology (Hons) and Graduate Diploma in Applied Finance and Investment from the Financial Securities Institute of Australia.

He has gained experience over a 20 year career working in the technical, marketing and financial fields of the international exploration and mining industry. He has worked for Anaconda Nickel, RTZ Exploration, the North Group, the Normandy Group and Ashton Gold. Five years ago he founded Ventnor Capital Pty Ltd, a corporate advisory consultancy which provides technical, marketing and corporate advisory services to junior and mid-cap listed mining and exploration companies. He is currently Director of Poseidon Ltd and Whinnen Resources Ltd.

Mr Brian Thomas – Non-Executive Director

Mr Thomas is a geologist and mineral economist with extensive experience as both an executive and non-executive director with small to midsized public listed companies.

He previously held a number of roles in the finance sector including a senior business development role with a major Australian bank sourcing energy and resources financing opportunities, investment banking with a global investment banking group and corporate stock broking with two major Australian based firms. The shift to the finance sector followed over 20 years in both production and exploration operational management roles in the resources sector.

Mr Sean Murray – Non-Executive Director

Mr Murray has worked worldwide in the chemicals and mining industries, including non-ferrous metals and minerals and industrial minerals. His successful executive management career includes senior roles with Rio Tinto Zinc Corporation and Pasminco Inc, where he also served as Chairman and Rio Tinto Borax where he became Managing Director of Borax Europe and then Deputy Chief Executive, Rio Tinto Borax in the 1990s. He also served on boards of several Rio Tinto subsidiary companies, and as an industrial advisor to the UK government, and as Vice-president of the Industrial Minerals Association, and as President of the European Borates Association.

Since 2004, Mr Murray has provided specialist consulting services to the industrial minerals sector in Europe and North and Central America.

Risks

*Risks include:
exploration risk,
federal
permitting, and
access to water*

Like most junior explorers there is always significant exploration risk. However we believe this risk is mitigated to a degree due to the number of oil/gas wells previously drilled throughout the region and over Transit's ground. The locations of these wells and the quality of data that remains from the logs have all contributed to understanding the underlying geology.

Another major risk is associated with the Federal permitting (BLM). Transit believe the permits to drill an additional 12 holes on the Federal ground will be granted in 8 – 12 months time. If this is the case we see a smooth transition from drilling the state blocks, defining a maiden resource, an updated scoping study, and then ready for additional drilling on Federal land in good time. This timing is dependent on the Federal Authorities and it is difficult to predict how accurate this assumption is at this time. Transit's proximity to national parks and cliff faces may impact on the BLM granting permission to drill or mine on Federal owned ground.

Transit has quality local personal on the ground with many years experience with exploration and environmental permitting in south-eastern Utah. This should help the transition of permitting over the coming months.

Access to water will be a risk moving forward with the project. We know there are two aquifers beneath Transit's ground, however like exploration risk, there is always the possibility that substantial flow rates will not be obtained from drilling these water sources or permitting issues may be encountered.

With the upcoming drilling programme, we see positive drilling results re-valuing the asset

Recommendation

In the last 6 months Transit has made significant progress in obtaining access to their state leases, via a right-of-way, to begin a 4-5 hole drilling campaign. With the upcoming drilling programme, we see positive drilling results re-valuing the asset.

Also look for positive drilling results from Transit's 37% interest in Rador Iron Ltd.

With regards to the information above, we rate Transit as a **SPECULATIVE BUY**.

Potash 101

Potash is the general term for a number of salts that contain potassium, one of the three key fertiliser ingredients which include nitrogen, phosphorous and potassium (NPK).

The most common sources of potash are basinal evaporate salt deposits, with the primary minerals being sylvinite (a mechanical mixture of KCl and NaCl) and carnallite ($\text{KMgCl}_3 \cdot 6\text{H}_2\text{O}$). Pure carnallite contains 14 wt% potassium, and a 50/50 KCl/NaCl sylvinite mixture contains 30 wt% potassium.

Potash grades and contents can be quoted in a number of ways, either as K, KCl (1.906 x K) or K_2O (1.204 x K). For example, 10% K is equivalent to 19.06% KCl or 12.04% K_2O .

Potash Mining

Mining is generally carried out either by conventional underground or solution mining, with Canada being the world's largest producer.

Solution mining (sylvinite) involves the following processes:

- Drilling of two wells ~70m apart to salt layer
- Hot (85° C) water pumped down wells, which dissolves salts into brine, forming two caverns
- Caverns merge into one, with water then being pumped down one well and brine being extracted from the other
- Each cavern lasts between two and three years
- Multiple wells are linked to a central processing plant, with this extracting KCl using established technology. (Note: Extra processing is required when mining carnallite as the MgCl must be separated from the brine, hence increasing processing costs).

Increasing depth is not a major issue with solution mining, and in fact it can have a number of positives, including the requirement for less heating of injection water on the surface due to higher temperatures at depth.

The major cost with solution mining is power, due to the need to heat significant volumes of water. Transit's location in a gas producing area is a major positive, with easy access to major gas pipelines.

Another significant requirement for solution mining is water. It is estimated that approximately 4,000 gals/minute is required to run a 2Mtpa production, including milling. However 80% of water is recycled back into the system.

Rule of thumb costs for solution mining are in the order of \$100-\$140/tonne operating costs, and \$800 - \$1,000 million CapEx for a 1mtpa KCl operation.

Fertiliser and Potash Markets

Rising world populations and the coincident decrease in arable land per person to grow food will continue to put pressure on growers to increase crop yields on available land. This pressure in turn increases the need for fertilisers. In addition the increasing production of bio-fuels is also a factor in the increased requirements for fertilisers.

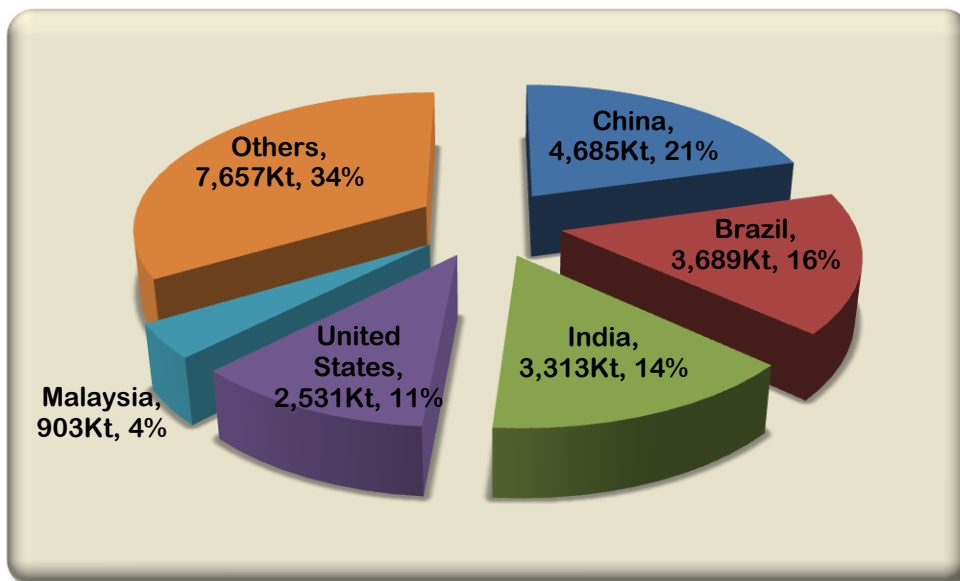
In the period 1961 to 2008 worldwide cereal production (which, in 2008 comprised approximately

60% of total crop production) increased 287% (annual rate of ~ 2%) from 877 to 2,521 million tonnes, with area under cultivation only increasing 10% from 648 to 712 million hectares, indicating an increasing in yields from 1.3 to 3.5 t/ha (FAO).

In the same period the nutrient contents of fertilisers used (for all agricultural production) has risen approximately 5-fold from 32Mtpa to 156Mtpa (IFA).

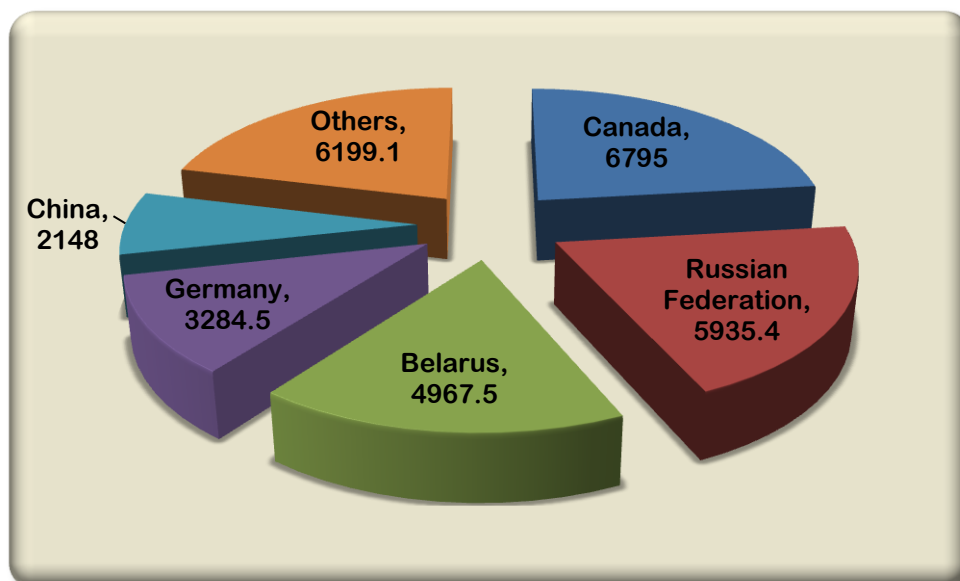
In 2008, the United States imported 91% of the potash that it used, and produced 1.2 million tonnes. Imports, primarily from Canada, totalled 5.3 million tonnes in 2008 (US Geological Survey, USGS). We see a great advantage for US produces supplying to their domestic markets. Other countries with a low supply and high demand for potash include; Brazil, China and India.

Figure 4: World potash consumption, 2008, '000t K (Source: IFA)



World potash (K) production in 2008 was 29.3Mt of K (equivalent to 55.9Mt of KCl), with Canada the largest producer, followed by The Russian Federation and Belarus (Figure 5). In the same year consumption was 22.8Mt, with China being the largest consumer, followed by Brazil and India (Figure 4).

Figure 5: World potash production, 2008, '000t K (Source: IFA)

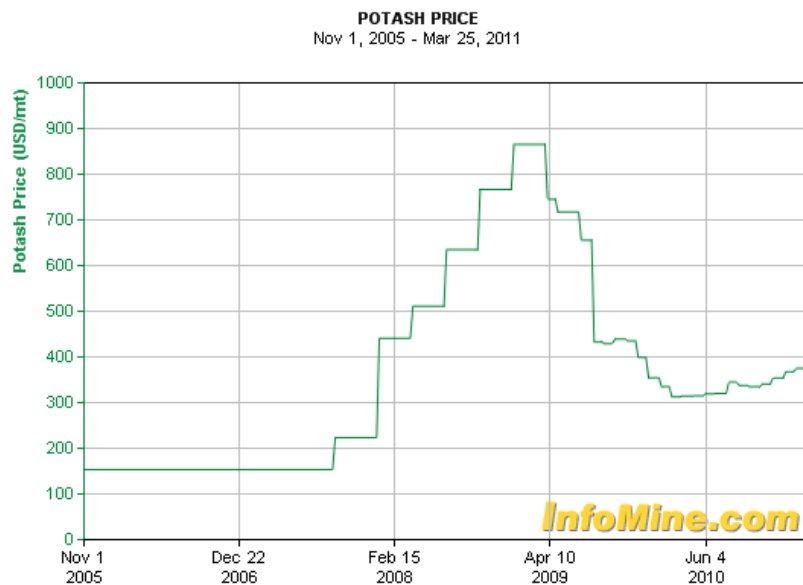


Potash Pricing

Potash pricing depends on a number of factors, including the geographical market and delivery basis (FOB or CFR). Prices operate on both a spot and contract basis, however detailed price data is difficult to obtain, and there can be a wide range of prices from different markets.

Historically international trade was largely controlled by Canpotex, the marketing and distribution company controlled by the Saskatchewan potash producers. This led to the Vancouver FOB KCI price being the benchmark. However the breakup of the Soviet Union saw increasing volumes being shipped from the FSU and hence different pricing and basis for pricing in the market. Belorussian Potash (BPL) is now a major player in the market.

Figure 6: Historical KCI prices, FOB Vancouver (Source: Infomine website, extracted May 18, 2011)



It is expected that prices will remain strong for the foreseeable future. Recent price rises by PotashCorp (U.S. Midwest Potash increased by US\$45 per short ton to \$560/tonne) and by BPL (Granular potash CFR Brazil increased by US\$50/tonne to US\$520/tonne) confirm this view.

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