PEAK RESOURCES LIMITED (ASX: PEK)

Share price: $0.25
Shares on Issue: 207.9 mill
Market Cap. : $52 million

Major Rare Earth discovery confirmed
Peak Resources have confirmed the discovery of a world class Rare Earth deposit with the initial reporting of the resource at its 100 % owned Ngualla project in Tanzania. The broad resource independently calculated by Hellman and Schofield is:
170 million tonnes @ 2.24% REO containing 3.8 million tonnes REO with a higher grade core zone of 38 million tonnes @ 4.10% REO containing 1.57 million tonnes REO.

This is one of the largest and highest grade undeveloped resources outside of China.

Chemical composition looks good
The mix of Rare Earths is similar to other developing projects such as Mt Weld (Lynas Corp). Uranium and thorium levels are very low which may be of critical importance in product acceptance.

Located in a mining country
The project is located in East Africa in Tanzania, a country with an established mining industry, being the third largest gold producer in Africa. Ngualla is located 150 km from airport, road and rail links to the port of Dar es Salaam, some 750 km away.

Preliminary metallurgy encouraging
Early metallurgical testing suggests that primary mineralization can be concentrated by gravity and flotation. However the exciting potential is in the oxidized zone where acid leaching has been demonstrated to extract 70-90% of the contained Rare Earths in a number of samples. This is being followed up with more comprehensive testing as it offers a lower cost route, potentially producing an intermediate concentrate of REO carbonates at site.

Project moving from exploration to commercialization
Peak Resources is now moving quickly from ore definition to project commercialization with the appointment of new MD Richard Beazley, an engineer experienced in project development along with key consultants. A scoping study is planned to be completed by the end of CY2012 with the critical work areas to be metallurgical testing, flow sheet development and commercial negotiations with key potential off-take partners.

Potentially significant Rare Earth producer
The Ngualla project is likely to focus on the higher grade core zone. Conceptually we envisage shallow open pit mining at about 350,000 tpa of ore at about 4% REO to produce about 10,000 tpa REO in concentrates during its early years. There appears to be sufficient high grade resource for a mine life of 50 years with room for expansion as the market demands. Peak Resources is planning for a project development timetable which could see production commencing by 2016.

Attractive risk/reward potential
Peak Resources is capitalized at $A50 million and yet has one of the potentially most economically attractive undeveloped Rare Earth deposits outside of China. There are a number of issues to resolve but a successful outcome should see a share price at multiples of its current level.

We see this stock as a Speculative Buy.
Analyst: Rex Adams
Ngualla Rare Earth Resource

The Ngualla project is located in western Tanzania about 750 km WSW of the port of Dar Es Salaam and some 150 km north of the city of Mbeya with access via 100 km of paved roads and 56 km of gravel road.

Peak Resources owns 100% of the exploration tenement covering the Ngualla discovery after acquiring 20% partner Zari exploration in March. The Ngualla deposit is part of a carbonatite complex which is unusual alkaline igneous rocks often occurring as sub-volcanic plugs along regions of continental rifting. The Ngualla carbonatite is roughly oval in shape 3.5 km by 2.5 km, Proterozoic in age and intruding older Pre-Cambrian gneisses, quartzites and volcanics. The carbonatite is fairly typical showing an overall circular zoning pattern.

Ngualla is however unusually rich in Rare Earth elements particularly in the designated Southern Rare Earth zone where drilling has been focused. This higher grade zone appears to have been overprinted by weathering giving a central high grade zone which is depleted in carbonates and relatively enriched in Rare Earths.

In Feb 2012 Peak reported its initial resource statement which was estimated by independent resource consultants Hellman and Schofield Pty Ltd.

Total Resource: 170 million t @ 2.24% REO containing 3.83 million t REO (at 1% REO cutoff)

High Grade resource 38 million t @ 4.10% REO containing 1.60 million t REO (at 3.0% REO cutoff)

The High Grade resource is a central core zone within the broader mineralized envelope. The Total resource includes an “alluvial” zone of 24 million t @1.77% REO within unconsolidated ferruginous gravels on the south west flank of the main body.
The main Rare Earth mineral is reported as bastnesite (a rare earth-carbonate-fluoride mineral) with rare monazite recorded in peripheral zones.
The Rare earth composition is as follows with comparatives.

<table>
<thead>
<tr>
<th>Oxide</th>
<th>Ngualla Average %</th>
<th>Mt Weld (Aust) %</th>
<th>Mountain Pass (US)%</th>
<th>Bayenebo (China) %</th>
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<tr>
<td>Lanthanum</td>
<td>La₂O₃</td>
<td>27.1</td>
<td>23.88</td>
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<td>CeO₂</td>
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<td>Neodymium</td>
<td>Nd₂O₃</td>
<td>16.3</td>
<td>18.13</td>
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<td>Sm₂O₃</td>
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<td>Gd₂O₃</td>
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<td>Terbium</td>
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<td>Dy₂O₃</td>
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Source: Peak Resources and other company releases

The Ngualla REO composition is quite similar to Mt Weld and at recent REO prices the value of Mt Weld REO mix is reported as $US63.00/kg which would translate to $US 53.00/ kg for Ngualla.

Uranium and Thorium levels in the Southern Rare Earth Zone (21 ppm and 35 ppm respectively) are very low, which is of critical importance, as high levels of uranium and thorium can create significant issues in either processing or in product acceptability with customers. At these levels the ore would have a non-radioactive classification.

**Northern Zone**

Within the Ngualla carbonatite complex on the northern side there is a zone of iron rich magnetite-apatite rock which has economic potential Phosphate value range 15-25% with associated Nb₂O₅ of 0.25% to 1.5% and Ta₂O₅ 100-250ppm. Rare earth grades are 1.0 to 2.5%.

This has a future potential to be the basis of an entirely different project producing phosphate, niobium and tantalum with perhaps a Rare Earth by-product. However it is not currently the focus of the company although some further exploratory holes will be drilled in the next year.

**Preliminary Metallurgical testing**

Preliminary metallurgical testing suggests that the primary fresh rock mineralization will respond to conventional concentration methods such as screening/gravity/flotation to produce a bastnasite rich concentrate. Work is ongoing to detail a process route which is similar to other producing rare earth deposits producing the same minerals.

The oxide zone is particularly encouraging as the company conducted a number of leach tests with sulphuric acid leaching. This gave a range of REO extraction from only 8% in ferruginous gravels up to 88% in a composite sample from several holes in the core zone. A number of other samples from around the core zone ranged 65 to 92% extraction. Several peripheral samples which contained some monazite gave extractions of only 30 to 50%.
This leach work currently being followed up by a more comprehensive programme of leach trials on another 31 samples. Acid leaching offers a promising route to lower costs, potentially processing at site through to a Rare Earth carbonate, an intermediate product which could then be exported in small volumes to refiners located nearer the end customers.

One of the most important tasks for the scoping study this year, is to establish a processing flow sheet which would then be pilot tested during the definitive feasibility study.

The Market for Rare Earths

The term Rare Earths refers to a group of 15 elements known as the Lanthanide series on the periodic table. They are actually reasonably abundant in the earth’s crust but rarely occur in economic concentrations. When they form high concentrations they occur as a mixture of the series of Rare Earths within several minerals.

Most of the Rare Earth elements have multiple applications in modern high technology industries. The critical ones are neodymium and dysprosium with escalating use in high intensity rare earth magnets which are key to powerful lightweight electric motors in disk drives, motor vehicles and especially electric/hybrid cars and many other applications including wind turbines. Similarly praseodymium and samarium in other types of rare earth magnets.

Europium is essential for the vivid blue and red colours on modern TV/computer screens. Terbium gives a brilliant green-yellow colour. A combination of europium and terbium gives a brilliant white phosphor used in the manufacture of modern high efficiency light bulbs and fluorescent tubes. Rare earths, particularly lanthanum are essential in Nickel metal hydride batteries which have application in hybrid cars. Cerium is used in catalytic converters in auto exhausts and as a catalyst in oil refining. They are used in dozens of applications usually in small quantities but are essential for modern civilization. China totally dominates world supply of Rare Earth oxides producing 97% of current 140,000 tpa supply.

China is restricting exports and may shortly consume most of its production. Demand is forecast to exceed supply sometime in the next several years with some commentators predicting demand to exceed 200,000 tpa within several years. Many manufacturers around the world are increasingly concerned about security of supply. There is room in the market for the projects currently in development; Mountain Pass in California, US and Mt Weld in Australia/Malaysia, and perhaps a few others in the near term to move towards development. These potential developments are only likely to go ahead with the support of partners linked to the consumer groups, providing them with supply security.

With Chinese export restrictions, prices of most Rare Earths spiked by more than 600% in 2010-2011 but have since been retreating, having halved from the top prices.
Rare Earths are not freely traded like the LME metals, rather it is a small not very transparent market between the Chinese sellers and a fairly disparate group of buyers. Indicative prices are posted on a few specialist websites.

**Commercializing the project**

Now that a very large resource has been established, the other key task for the scoping study is to meet with a range of potential customers and buyers of the Rare Earth products to determine product requirements and specification, and potential partnership relationships. The Rare Earth market is quite small at 140,000 tpa REO but growing strongly, however new projects will only be developed with the support of customers. Clearly with China dominating the world supply and restricting exports, many customers are looking for secure sources outside China. This has seen the development of Mt Weld in Western Australia and the re-development of Mountain Pass. Several other projects are in feasibility studies around the world but most are quite low grade, some may have issues with uranium and thorium, and some have some metallurgical recovery issues. Ngualla stands out from other projects as superior on grade, size and potentially on metallurgy and cost.

**Conceptual Economics**

We believe the Ngualla central high grade portion of the Southern Rare Earth zone is more than large enough for a long life open pit operation of significant scale. The Resource is reported as 38 million t @4.1% REO.

The broader lower grade resource would only need to be considered at some future time if major expansion was required.

We envisage a simple low strip ratio open pit mine (probably less than 1:1 waste to ore) producing about 350,000 tpa of ROM ore at about 4% REO. Assuming about 65% resource to reserve conversion this implies about 25 million t potentially mineable, giving a possible mine life of over 50 years at the initial production rate.

Conceptually the processing route could be in three components:

1. **Concentrator** : a conventional concentrator crush/screen/grind/flotation to produce a Rare Earth concentrate, primarily a bastnasite concentrate. This might be either a high grade concentrate for export or a lower grade rougher concentrate if going to an on-site leach plant.

2. **Rare Earth Recovery plant** : a sulphuric acid leach plant and carbonate precipitation circuit to produce intermediate RE carbonates. This plant could be located at site or offshore near the refinery.

3. **Refinery** : a Rare Earth refinery processing the RE carbonates into the individual Rare Earth Oxides for sale to various industrial users. This plant is likely to be located near markets and could be a JV or owned by a consumer group.

If we assume that primary metallurgical recoveries are of the order of 70% we would expect an initial production rate of about 10,000 tpa of REO contained in Rare Earth carbonate.

At recent fob China prices which imply a refined value of $US53/kg for the average mix, 10,000 t of concentrates contain $US 530 million of gross value. After say a 5% refining loss the contained value would be $US500 m.

Then the uncertainty is how much of that value will be paid for by the customers, as that intermediate feedstock would still have to be refined into pure Rare Earth oxides. We assume a reasonable starting point is 40 to 50% of contained value which suggests an annual value of about $US200-250 million.

**Operating costs** might be in the order of $US 50/t ore mined and processed in the concentrator for $18 m pa, and another $US 25-30 m pa to operate acid leaching and RE carbonate production. Say $US 45-50 m pa annual operating cost including overheads, which provides a strong potential operating margin at 350,000 tpa of ore processed of perhaps $US150-200 million.

**Capital cost** could be something like $80 million for mine and concentrator plant, $50 million for infrastructure (power, water, roads, camp etc.), and perhaps $250 m for leaching circuit, Rare Earth carbonate precipitation plant and an acid plant. Total say around $380m, but could be more.

A payback of about 2 years for a very long life mine implies a very robust project and would still be attractive at significantly lower REO prices.
In addition a new refinery would probably cost another $US 200 m plus to produce 5 or 6 products for individual customers, but this refinery is likely to be third party or joint venture owned. There may also be some existing refining capacity in western economies which could use the intermediate product from the leach plant.

The key issue is going to be, who the ultimate buyers of the products are, and who owns the acid leaching circuit and the refinery. These are where the large capital would be spent and could be potentially owned by a partner or probably a Joint Venture in which Peak may be a partner.

That structure, could leave Peak to simply develop a mine and concentrator at site, and be paid a price for raw RE concentrates exported. Obviously the price received would be somewhat lower but capital would be much smaller and the operating cost lower and the economics still very attractive.

Whatever the structure that leads to the project development, there should be substantial value for Peak Resources which is now only capitalized at $50 million.

**Comparable Rare Earth companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Cap $US M</th>
<th>Project</th>
<th>Resource</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Molycorp US</td>
<td>2,000</td>
<td>Mountain Pass</td>
<td>16.6 m t @7.98%REO</td>
<td>California USA</td>
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<tr>
<td>Lynas Corporation Aust</td>
<td>1,500</td>
<td>Mt Weld</td>
<td>14.9 m t @ 9.8% REO</td>
<td>Australia WA and Malaysia</td>
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<tr>
<td>Alkane Resources Aust</td>
<td>350</td>
<td>Dubbo</td>
<td>73.2 m t @0.89% REO + Zr, Nb, Ta</td>
<td>Australia NSW</td>
</tr>
<tr>
<td>Rare Element Resources US</td>
<td>185</td>
<td>Bear Lodge</td>
<td>22.7 m t @ 9.2% REO</td>
<td>Wyoming USA</td>
</tr>
<tr>
<td>Greenland Resources Aust</td>
<td>160</td>
<td>Kvanefjeld</td>
<td>861 m t @1.07% REO + 0.59lb/lb U3O8</td>
<td>Greenland</td>
</tr>
<tr>
<td>Avalon Rare Metals Canada</td>
<td>150</td>
<td>Nanchalacho</td>
<td>161 m t @ 1.43% REO</td>
<td>Canada NWT</td>
</tr>
<tr>
<td>Quest Rare Minerals</td>
<td>130</td>
<td>Strange Lake</td>
<td>230 m t @ 0.91% REO</td>
<td>Canada Labrador</td>
</tr>
<tr>
<td>Tasman Metals</td>
<td>100</td>
<td>Norra Karr</td>
<td>60 m t @0.54% REO</td>
<td>Sweden</td>
</tr>
<tr>
<td>Arafura Resources</td>
<td>80</td>
<td>Nolans Bore</td>
<td>46 m t @2.5% REO + 0.41lb/lb U3O8</td>
<td>Australia NT</td>
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<tr>
<td>Peak Resources</td>
<td>50</td>
<td>Ngualla bulk</td>
<td>170 m t @ 2.24% REO + 38 mt @ 4.1% REO</td>
<td>Tanzania</td>
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</table>

*Source: Individual company reports*

**Conclusions**

Peak’s Ngualla project is at a slightly earlier stage than some comparable companies but the deposit has some more attractive attributes than some competing projects. It has fairly predictable mineral processing as bastnasite is the main mineral produced in existing producers, and Ngualla is non-radioactive. Peak has rapidly demonstrated that the Ngualla resource is world class in size and grade. Peak will maintain pace in metallurgical testing and flow sheet development which will allow the company to undertake initial commercial discussions with potential partners and customers in late CY 2012.

As Peak advances along the development pathway we expect the stock to catch up on some of its peers and trade at multiples of its present share price.
**Future programme and development timetable**

A scoping study is underway and planned for completion by the end of CY 2012.

Key work components include:

1. Metallurgical testing, in particular comprehensive leach testing across the Southern Rare Earth Zone as well as beneficiation and flotation tests. Development of the complete Process Flow Sheet. Leading to Pilot Plant tests in 2013.

2. Market analysis and discussions with potential customers and partners.

3. Resource drilling to increase confidence levels in the Southern Rare earth Zone as well extend resources.

4. Limited exploration drilling in the Northern Zone which contains niobium, tantalum, phosphate plus rare earths, to allow some understanding of the potential.

Assuming continued success Peak Resources anticipates a development programme as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>CY2013</td>
<td>Pre-Feasibility study including Pilot Plant trials and initial design work, commercial negotiations</td>
</tr>
<tr>
<td>CY2014</td>
<td>Definitive Feasibility Study, detailed design and completion of commercial agreements relating to partnerships, supply agreements and financing.</td>
</tr>
<tr>
<td>CY2015</td>
<td>Project construction</td>
</tr>
<tr>
<td>CY 2016</td>
<td>Complete construction and commission project June Half CY2016</td>
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**Financial**

Peak Resources is an exploration company which funds its expenditure by raising new capital to undertake each phase of work. It has no significant debt and its assets on the balance sheet are essentially its cash holdings and its exploration tenements. Cash balance at end march was $A5.03 million and projected expenditure for the June quarter was $A2.0 million.
Management
Peak Resources began life as a small exploration company with management skills focussed on prospecting, exploration and discovery. With a major discovery the company has been adding skills to the management team and engaging consultants with more of a project development focus.

A key move was the appointment of new Managing Director in January 2012.

Managing Director: Richard Beazley
A mining engineer with 25 years’ experience in the resource sector. Mr Beazley holds a degree in Mining Engineering from UNSW and a Master of Business Administration. He has extensive experience in a range of commodities having previously held executive and management positions with Consolidated Minerals, St Barbara Mining, Aditya Birla Minerals, Henry Walker Eltin and Sons of Gwalia. In particular he has project development experience with some challenging operations.

Non-Executive Chairman: Alistair Hunter
With 38 years experience in prospecting and exploration Mr Hunter has played a significant role in a number of gold and base metal discoveries. He is a former director of Peninsular Minerals and former managing director of Matlock Mining and Anglo Resources NL. He was instrumental in taking Peak Resources into exploration in Tanzania and the acquisition of the Ngualla project.

Technical Director: Dave Hammond
A geologist with an MSc from Royal School of Mines, London, Mr Hammond has over 23 years technical and management experience. He previously held positions as Exploration Manager with De Grey Mining and Sons of Gwalia, as well as Project Geologist with Billiton in South Africa and Zambia.

Non Executive Director: Jonathon Murray
Partner in Perth legal firm Steinpreis Paganin. Mr Murray has extensive experience in equity raisings, acquisition and divestments and corporate governance.

CFO and Company Secretary: Linda Paini
Ms Paini is a CPA with 15 years accountancy experience as well as corporate secretarial experience particularly in the resource sector.

Chief Development Officer: Lucas Stanfield
Mr Stanfield is a mining engineer with 15 years’ experience and a very strong background in project management. holds a degree in mining engineering from UNSW and a diploma in law from University of Sydney. Commencing in the NSW coalfields Mr Stanfield then moved to the UK to be involved in the rail network maintenance and construction, EPC in public buildings, recycling and treatment facilities and a number of infrastructure projects throughout the country. In more recent years he has moved back to Australia to be instrumental in a number of resources projects managing various studies and construction projects in copper, manganese, iron ore, oil and gas and port infrastructure.

Key Consultants
Specialist Rare Earth Metallurgist : Gavin Beer.
Mr Beer has been retained to manage the development of the Ngualla process flow sheet. He is a consultant metallurgist with 25 years experience in the minerals industry. Most recently he was Manager Metallurgy with Arafura Resources for the Nolan’s Bore Rare Earth project, where he played a key role in developing the metallurgical flow sheet and oversaw the implementation of a demonstration plant.

Resource consultants: Hellman and Schofield
Metallurgical and mineral processing: Bateman Engineering
Mineral Processing test laboratory: Amdel
Consulting Geologist: Dr Wally Witt
Consulting Mineralogist: Dr Roger Townend
Blue Ocean Equities Contact List

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<tr>
<th>Name</th>
<th>Title</th>
<th>Contact Information</th>
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Analyst disclosure of interest
The author of this report has a beneficial interest in 282,701 shares in Peak Resources Limited

Analyst
Rex Adams
18 June 2012