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Rox Resources Ltd (RXL)

Extensions to Fisher East nickel deposits

Recommendation
Buy (unchanged)
Price
\$0.012
Valuation
\$0.026 (previously \$0.035)
Risk
Speculative

Expected Return

Capital growth	117%
Dividend yield	0%
Total expected return	117%

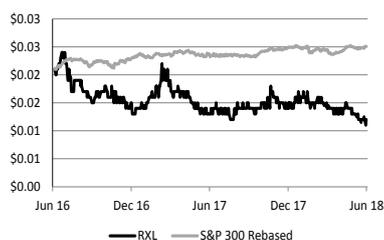
Company Data & Ratios

Enterprise value	\$3m
Market cap	\$15m
Issued capital	1,258.8m
Free float	98%
Avg. daily val. (52wk)	\$38,800
12 month price range	\$0.011-\$0.019
GICS sector	Materials

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.01	0.01	0.01
Absolute (%)	-14.3	-17.2	-7.7
Rel market (%)	-14.4	-20.3	-13.9

Absolute Price



SOURCE: IRESS

Refocusing on nickel with Mt Fisher Gold IPO planned

Diamond drilling at RXL's Fisher East Nickel Project in the Murchison district of WA has successfully defined extensions to the nickel mineralisation at Musket and Camelwood orebodies at depth. The company is refocusing on nickel exploration following its recently announced plan to unlock the value of its Mt Fisher Gold Project through an Initial Public Offering (IPO).

Moving on from Bonya with Collurabie drilling underway

RXL has agreed to sell its 40% interest in the Bonya Copper Project in the Northern Territory to Thor Mining PLC for \$0.55m in shares. While the company had discovered some significant near surface copper mineralisation at Bonya, commercialisation of that was likely to be difficult and time-consuming so RXL has sold its interest, (which was recently restructured to include an entitlement to all minerals) enabling it to move on and refocus its attention on its more attractive nickel projects.

The company is currently completing another aircore drilling program at its 100% owned Collurabie Nickel Project, located about 70km from its Fisher East Nickel Project. This latest drilling program follows the previous program in late 2017, which confirmed the presence of nickel sulphides at Olympia North and that the ultramafic belt there is very prospective for nickel sulphide mineralisation.

Investment thesis – Spec. Buy, valn. \$0.026/sh (prev. \$0.035)

RXL is continuing to progress its own interests – namely the advanced Fisher East Nickel Project; its nearby Mt Fisher Gold Project; and the close by Collurabie Nickel Project, which also has gold potential. The company has demonstrated a track record of identifying and unlocking significant value from its projects by well-managed, value-adding exploration and by engaging appropriate farm-in partners. RXL remains well positioned to carry out meaningful nickel focused exploration on its projects for an extended time, particularly after it successfully spins out its Mt Fisher Gold interests via an IPO.

We have lowered our valuation by 26% to \$0.026 per share reflecting the outcome of the sale of the Bonya Project interest in May 2018, a revision to our valuations for Fisher East/Mt Fisher (that includes a change to the discount rate used and slight increases in valuations from recent exploration results) and the company's reduced cash balance. Our Speculative Buy recommendation is retained.

Quarterly working capital summary

	Mar-17a	Jun-17a	Sep-17a	Dec-17a	Mar-18a	Jun-18e
Exploration and evaluation (\$k)	(115)	(595)	(327)	(439)	(256)	(525)
Staff and administration (\$k)	(727)	(466)	(381)	(324)	(464)	(255)
Capital raised (\$k)	0	0	0	0	0	0
Other (\$k)	14,938	(34)	(280)	67	33	58
Total quarterly cash flow (\$k)	14,096	(1,094)	(988)	(696)	(687)	(722)
Quarter end cash (\$k)	14,997	13,883	12,895	12,199	11,512	10,790
Debt (\$k)	0	0	0	0	0	0
Net Cash (\$k)	14,997	13,883	12,895	12,199	11,512	10,790
Shares on issue (m)	1,236	1,236	1,244	1,259	1,259	1,259

SOURCE: ROX RESOURCES LTD AND BELL POTTER SECURITIES ESTIMATES

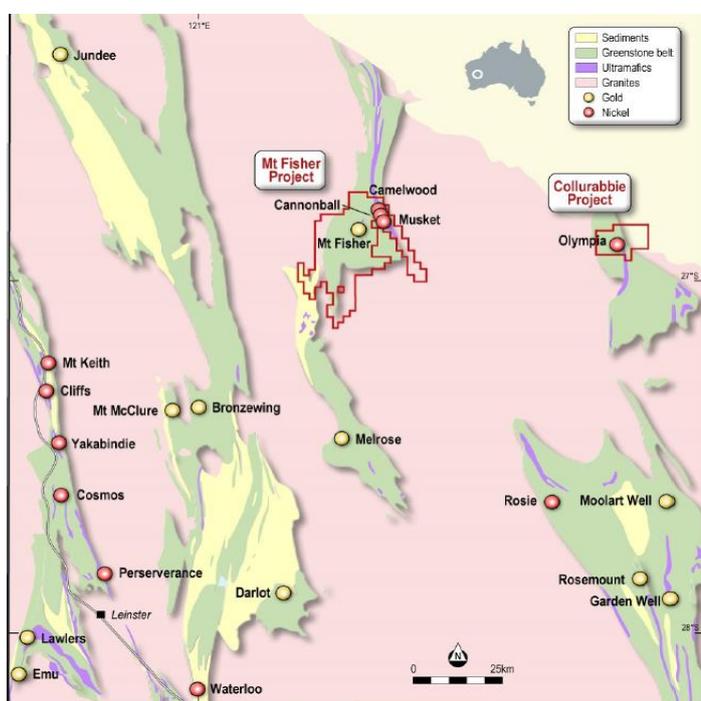
Extensions to Fisher East nickel deposits

Three massive sulphide intersections add 150+m depth extent

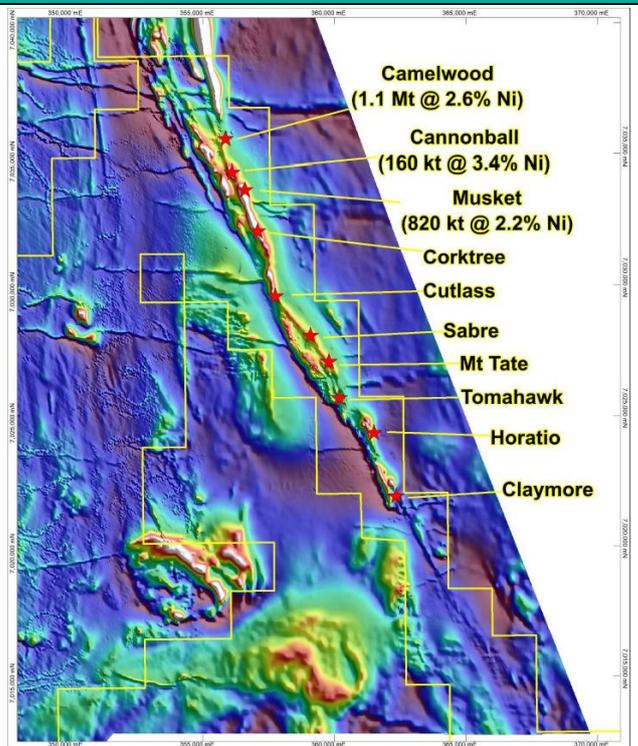
RXL is renewing its focus on its 100% owned Fisher East Nickel Project in the Murchison region of the Eastern Goldfields region of W.A. (Figure 1). The company recently completed a four hole diamond drilling program at the Fisher East Project aimed at extending the Musket and Camelwood deposits by testing strong downhole EM anomalies and testing a very strong 1km long EM conductor at Corktree that had been detected at surface but never drilled. Significant results included the following nickel intersections:

- **4.3m at 2.0% nickel from 701.7m** down hole in MFED080 at Musket, which included 0.3m of massive sulphides grading 8.1% nickel from 701.7m;
- **2.4m at 2.4% nickel from 718.3m** down hole in MFED076W1 at Camelwood, which included 0.2m of massive sulphides grading 5.2% nickel from 718.9m; and
- **0.3m at 7.5% nickel as massive sulphides from 288.8m** down hole in MFED081 at Camelwood, which is interpreted to be an occlusion in the felsic sediment footwall.

Figure 1 – Map showing regional setting of RXL’s Fisher East Nickel Project and Collurabie Project **Figure 2 – Magnetic image of Fisher East nickel deposits and main prospects**



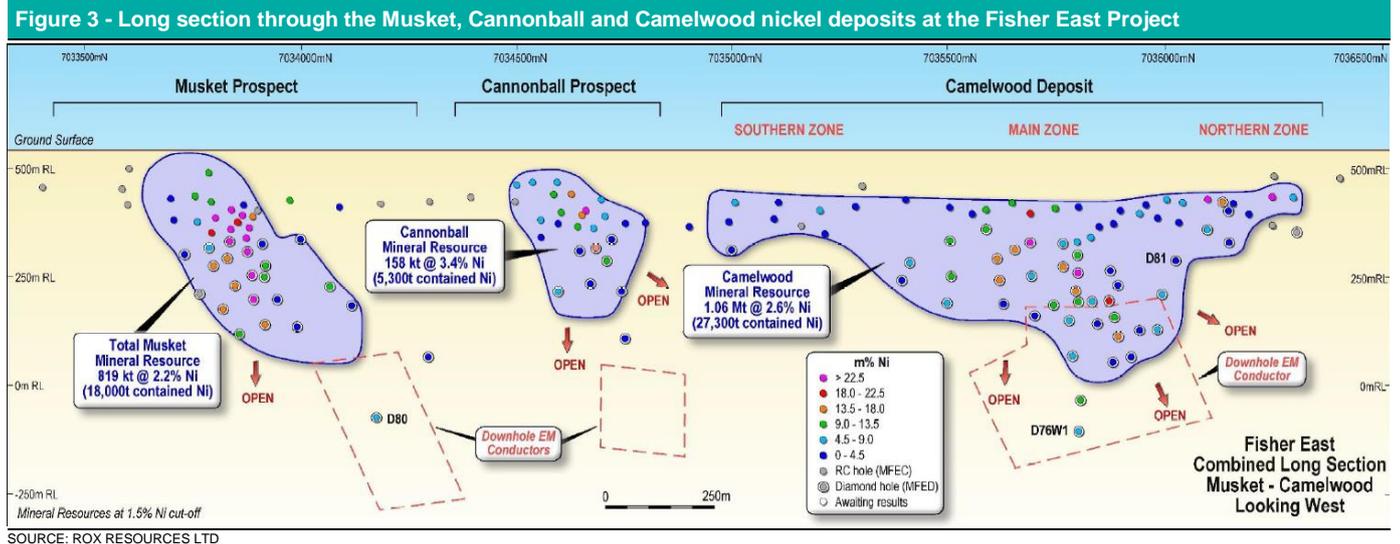
SOURCE: ROX RESOURCES LTD



SOURCE: ROX RESOURCES LTD

Nickel sulphide intersections significantly extends Musket and Camelwood mineralisation

The recent intersections of nickel sulphide mineralisation at Musket and Camelwood show the deposits are more extensive than has been defined by the Resources currently attributed to each deposit (Figure 3 over page). The intersection at Musket indicates the nickel mineralisation extends about 170m past the current Resource to at least 600m below surface and the two intersections at Camelwood show the nickel mineralisation there extends to a vertical depth of at least 675m below surface and about 150m past the current Resource boundary. Besides the massive sulphides in each hole, there was also disseminated and matrix sulphides in the Musket hole and blebby and matrix sulphides in hole MFED076W1 at Camelwood.



Barren 50m interval of pyrite-pyrrhotite-magnetite explains Corktree EM anomaly

The strong EM anomaly at Corktree (Figure 2 on previous page) was tested to a down hole depth of 500.1m in drill hole MFED082. This hole intersected a 50m interval of semi-massive pyrite-pyrrhotite-magnetite that returned no significant assay results but which explains the source of the strong EM anomaly.

Sabre discovery still to be drilled out

The Sabre Prospect (Figure 2 on previous page) has had three intersections of 1.0 to 2.4% nickel mineralisation over intervals from 2.0 to 4.8m and it contains at least two untested EM conductors, all at relatively moderate depth. Sabre represents a potentially significant addition to the Fisher East Mineral Resource, subject to it being successfully drilled out.

Mt Fisher Gold interests to be spun out in planned IPO

RXL recently announced its intention to unlock the value of its Mt Fisher Gold Project through an IPO. The company plans to vend its Mt Fisher Gold Project into a newly established 100% owned subsidiary, Helios Gold Limited (Helios) and to list that company on the ASX via IPO. RXL recently upgraded the Mineral Resource at Mt Fisher to full JORC 2012 compliance, which resulted in no change to the tonnage or grade of the Resource that remains at 973kt at 2.75g/t gold for 86koz of contained gold.

Bonya interest sold to Thor Mining PLC

RXL has reached agreement to sell its 40% interest in the Bonya Copper Project located about 350km east of Alice Springs in the Northern Territory to Thor Mining PLC (Thor) for \$0.55m in Thor shares. The company's interest of 51% previously only related to certain elements and minerals but that was changed to a 40% interest in all minerals in March 2018, which simplified the joint venture arrangement. While RXL's drilling of VTEM targets had intersected relatively shallow, high-grade copper mineralisation around the old Bonya mine, we believe that there was insufficient mineralisation to justify a process plant and the highly prospective tungsten and molybdenum mineralisation outcropping in the JV tenements is likely to be of more commercial value to Thor, which owns the advanced Molyhil Tungsten Project located about 30km to the west. The consideration shares in Thor will be subject to a 90-day no trade (without Thor's approval) period. The transaction is expected to be settled in the June 2018 quarter. While the sale price was less than the value we had estimated for RXL's Bonya interest, these early stage minority exploration project interests are difficult to monetise as there is usually only one buyer (which is

generally the other incumbent in the project) so we believe the outcome is a reasonable one for RXL as it is now able to move on to focus on its much more attractive nickel interests.

Aircore drilling underway at Collurabie

The discovery of the Collurabie nickel-copper-cobalt-PGM mineralisation in August 2004 was accompanied by considerable excitement as it seemed to be an important and potentially higher grade example of the Raglan style of nickel deposit that occurs near its namesake city in Canada where it is a world class occurrence containing over 1Mt of nickel metal that has been mined or defined in ten deposits, four of which are still actively mined (by Glencore) today. The initial excitement of the Collurabie discovery subsided and the ownership changed several times and there has apparently been no significant exploration since 2011. After acquiring the Collurabie Project last year, RXL carried out a program of aircore drilling in October that confirmed the presence of nickel sulphides at Olympia North, and showed that the ultramafic belt there is prospective for nickel sulphide mineralisation. A thick zone of disseminated nickel sulphides was intersected at Olympia North that included 32m at 0.48% nickel, 0.28% copper, 0.03% cobalt, 0.22g/t platinum and 0.35g/t palladium. The company has traced the prospective nickel-bearing horizon for over 15km along strike and its analysis shows that there has been very little previous exploration along it. RXL has just commenced an aircore drilling program to follow up and extend the anomalous results generated in last year's aircore program. The current program is designed to extend coverage along the belt so that further targets for massive nickel sulphides can be defined.

Capital position and near-term requirements

The company continues to be in a very strong financial position as indicated by:

- At 31 March 2018, RXL had cash of \$11.5m and no debt (Table 1);
- RXL's cash outflow estimates for the June 2018 quarter includes about \$0.5m for exploration and almost \$0.3m for staff and administration costs. We estimate RXL will have cash of around \$10.8m at 30 June 2018 and as such will be very well funded for its ongoing exploration activities, including further early stage programs on the Collurabie Nickel Project;
- With its strong cash position, RXL will not need to raise any further capital over the next few years to support its ongoing exploration, project development and administration expenses but it may need to raise additional equity capital if it identifies a suitable acquisition that is beyond its current cash reserves; and
- RXL is also due a deferred payment of \$3.75m cash in relation to the sale of its 49% interest in the Reward Zinc Project. That payment is due at the earlier of a Bankable Feasibility Study being completed on the Project or February 2023.

Table 1 - RXL's quarterly cash flows

	Dec-15 (a)	Mar-16 (a)	Jun-16 (a)	Sep-16 (a)	Dec-16 (a)	Mar-17 (a)	Jun-17 (a)	Sep-17 (a)	Dec-17 (a)	Mar-18 (a)	Jun-18 (e)
Exploration & evaluation \$k	(559)	(160)	(245)	(169)	(133)	(115)	(595)	(327)	(439)	(256)	(525)
Administration \$k	(527)	(70)	(283)	(195)	(467)	(727)	(466)	(381)	(324)	(464)	(255)
Capital raised \$k	1,887	(89)	0	946	0	0	0	0	0	0	0
Interest & Other \$k	(18)	1	2	172	131	14,938	(34)	(280)	67	33	58
Total quarterly cash flow \$k	783	(318)	(526)	754	(469)	14,096	(1,094)	(988)	(696)	(687)	(722)
Quarter end cash \$k	1,440	1,122	596	1,350	881	14,997	13,883	12,895	12,199	11,512	10,790
Shares on issue (diluted) m	1,181	1,181	1,181	1,236	1,236	1,236	1,236	1,244	1,259	1,259	1,259

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Forthcoming news flow and value catalysts

- **Fisher East** – Results from the diamond drilling phase of the current Fisher East drilling program ;
- **Mt Fisher** – The proposed IPO of its Mt Fisher Gold Project in a newly established entity, Helios Gold Limited, in which RXL will initially hold an interest of approximately 33%; and
- **Collurabie** – Results from the aircore drilling program currently underway and the continued exploration of this project, which has not had any significant exploration since 2011.

Valuation mainly based on Fisher East

RXL is a speculative investment with its most advanced project (Fisher East) in the Pre-Feasibility Study stage. We have only undertaken preliminary financial modelling of the Fisher East Project to which we have applied a heavy risk rating (applying a discount of 55% to the calculated net present value (NPV) using a 10% discount rate). We have assumed a mining operation at Fisher East based on producing about 350ktpa of ore that is trucked up to 200km to be toll milled at one of several currently idled modern nickel processing plants in the region starting in mid-2020. Our other valuations (except for the residual payment for the Reward Project) are based on the exploration potential of the projects, which is related to their geological style and settings and our assessment of their prospectivity.

RXL's value is principally leveraged to the success of three projects:

- Fisher East Nickel Project, particularly the potential for an approximate doubling of the resource base as a prelude to a successful mine development in the next few years;
- Mt Fisher Gold Project, which is planned to be vended into a newly established entity, Helios Gold Limited, which is planned to be listed on the ASX and in which RXL is expected to initially hold an interest of approximately 33%; and
- Collurabie Nickel Project, and in particular the potential for a significant resource to be defined that could be commercialised on its own or in association with a potential operation at RXL's Fisher East Project or other potential new nickel developments in the nearby region.

We have reduced our RXL valuation by 26% to \$0.026/sh (Table 2) from the following changes:

- Increase to values for Fisher East nickel (now \$25m, previously \$24m) and Mt Fisher (now \$5m, previously \$4m) and Collurabie (now \$0.8m, previously \$0.5m); and
- Reduction in value for Bonya Copper Project (now \$0.55m reflecting the Thor sale terms, previously \$2m);
- Reduction in cash balance and funds to come from exercise of options (now \$13.2m, previously \$16.1m); and
- Increase in fully diluted share capital (now 1,309.6m, previously 1,287.1m).

Table 2 - Valuation summary for RXL

	\$m ¹	\$/sh ^{1,2}
Fisher East Nickel Project	25	0.019
Mt Fisher Gold Project	5	0.004
Collurabie Nickel Project	1	0.001
Bonya Copper Project (terms of sale agreement with Thor Mining PLC for Thor shares)	1	0.000
Reward Project (risked, discounted value of remaining payment due)	2	0.001
Total for mineral assets	33	0.025
Corporate overheads	(11)	(0.009)
Enterprise Value	22	0.016
Net Cash	13	0.010
Total Valuation	35	0.026

SOURCE: BELL POTTER SECURITIES ESTIMATES

NOTE 1. MAY NOT ADD DUE TO ROUNDING AND DILUTION

2 BASED ON FULLY DILUTED SHARES OF 1,309.6M

Rox Resources Ltd (RXL)

Company description – refocused nickel explorer

RXL is a mineral exploration company with three main, Australian based projects which are all located in the northern part of the Eastern Goldfields of Western Australia: the Fisher East Nickel Project, which has a Mineral Resource of 2.0Mt at 2.5% nickel containing 50.6kt of nickel is 100% owned by RXL; the Mt Fisher Gold Project which has a Mineral Resource of 973kt at 2.75g/t for 86koz of contained gold is 100% owned by RXL but is planned to be vended into a newly established subsidiary that is planned to list on the ASX with RXL initially holding about 33%; and the Collurabie Nickel Project (100% owned by RXL and located approximately 70km east of RXL's Fisher East Nickel Project) has an Inferred Resource of 573kt at 1.63% nickel, 1.19% copper, 0.082% cobalt, 0.85g/t platinum and 1.49 g/t palladium. The company is in the process of finalising the sale of its recently restructured 40% interest in the Bonya Copper Project located about 350km east of Alice Springs in the Northern Territory to Thor Mining PLC for \$0.55m in Thor shares. RXL also has a \$3.75m receivable related to the sale in October 2016 of its 49% interest in the Reward Zinc Project.

Investment thesis – Spec. Buy, valn. \$0.026/sh (prev. \$0.035)

RXL is continuing to progress its own interests – namely the advanced Fisher East Nickel Project; its nearby Mt Fisher Gold Project; and the close by Collurabie Nickel Project, which also has gold potential. The company has demonstrated a track record of identifying and unlocking significant value from its projects by well-managed, value-adding exploration and by engaging appropriate farm-in partners. RXL remains well positioned to carry out meaningful nickel focused exploration on its projects for an extended time, particularly after it successfully spins out its Mt Fisher Gold interests via an IPO.

We have lowered our valuation by 26% to \$0.026 per share reflecting the outcome of the sale of the Bonya Project interest in May 2018, a revision to our valuations for Fisher East/Mt Fisher (that includes a change to the discount rate used and slight increases in valuations from recent exploration results) and the company's reduced cash balance. Our Speculative Buy recommendation is retained.

Valuation: Sum of 3 projects – Fisher East, Mt Fisher and Collurabie

RXL is a speculative investment with one project at the PFS stage and two at the mid to late exploration stage. We have therefore not undertaken detailed financial modelling of potential projects but have done preliminary modelling of the PFS stage project. The company's value is leveraged to the success of its three projects:

- The Fisher East Nickel project is located around 150km northeast of Leinster, Western Australia. RXL has defined a high grade Mineral Resource of 2.0Mt grading 2.5% nickel for 50.6kt of contained nickel. The resource includes high-grade, massive sulphide components, occurs over a 3km strike length and is open along strike and at depth. A mining study at PFS level on Fisher East in April 2016 indicated that the project would benefit from having a larger resource/reserve base to process, which would make a stand-alone plant more attractive but the toll treatment route also gives a positive way forward and underscores the viability of the Fisher East Nickel Project. RXL has recently carried out an RC and diamond drilling program to evaluate additional targets;

- The Mt Fisher Gold Project, located adjacent to the Fisher East Nickel Project, has a Mineral Resource of 973kt at 2.75g/t for 86koz of contained gold that is now planned to be the subject of a potential IPO as a separately run gold company; and
- The Collurabie Nickel Project is a recent and counter cyclic acquisition by RXL where there is considerable upside and potential to define collectively significant high grade nickel-copper-cobalt-PGM mineralisation in a Raglan-style setting by appropriate exploration that could potentially be relatively easily and cost-effectively monetised using regional processing facilities in a higher nickel price environment.

We are not expecting RXL to be raising any additional equity for some time but we recognise that, if the company were to identify a suitable acquisition that might require more funding than its cash resources, RXL may seek to raise additional funding by way of new equity.

Risks

Risks to resources sector equities include, but are not limited to:

- **Commodity price and exchange rate fluctuations.** 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.** Commodity producers are 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 and cause significant changes to operating and capital costs. Key mining operating costs are linked to energy and labour costs.
- **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 and exploration 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.
- **Operating and development risks.** Mining 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.
- **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.
- **Corporate/M&A risks.** Risks associated with M&A activity include differences between the entity's and the market's perception of value associated with transactions. The acquisition of other assets can divert management effort from the current focus and may yield inadequate returns.

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.

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The stocks of resource companies without revenue streams from product sales should always be regarded as speculative in character. Since most exploration companies fit this description, the speculative designation applies to all exploration stocks. The fact that the intellectual property base of an exploration company lies in science and is generally only accessible to the layman in a limited summary form adds further to the riskiness with which investments in exploration companies ought to be regarded. Stocks with 'Speculative' designation are prone to high volatility in share price movements. Exploration and regulatory risks are inherent in exploration stocks. Exploration companies engage in exploration programs that usually have multiple phases to them where positive results at some stages are not indicative of ultimate exploration success and even after exploration success, there is often insufficient economic justification to warrant development of an extractive operation and there is still significant risk that even a development project with favourable economic parameters and forecast outcomes may fail to achieve those outcomes. Investors are advised to be cognisant of these risks before buying such a stock including **Rox Resources Ltd** (of which a list of specific risks is highlighted within).

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