



Centrex Metals Limited (ASX: CXM)

SPECULATIVE BUY

A Breath of Fresh Eyre

Current Price - \$0.355

Mark Gordon MAusIMM CPGeo
(02 9377 1500)
mgordon@taylorcollison.com.au

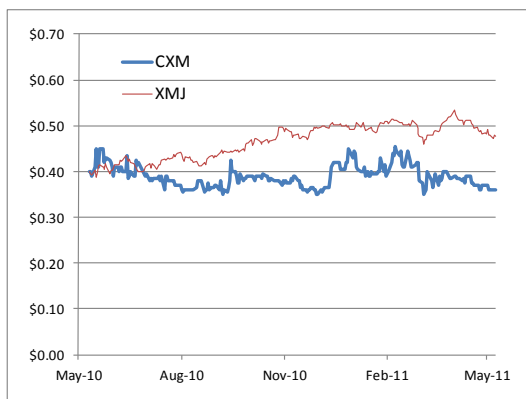
Capital Summary

Issued Capital	310.26m ords 5.38m opts
In-money options	2.95m
Market Capitalisation (m, diluted for in-money options)	\$111.18
Enterprise Value (m, diluted)	~\$54.00
Share Price (23/05/2011)	\$0.355
52 week low	\$0.35
52 week high	\$0.465
Cash (m) as at 31/03/2011	\$56.92
In-money options cash (m)	\$0.59

Directors

Mr David Klingberg	Chairman
Mr Jim White	Managing Director
Mr Jim Hazel	Non-Executive
Mr Kiat Poh	Non-Executive
Mr John Den Dryver	Non-Executive
Mr Graham Crisp	Non-Executive
Mr Xiaopeng Yin	Non-Executive
Ms Alison Evans	Company Secretary

Share Price Graph (A\$)



Major Shareholders

South Cove Ltd	80,876,005	26.07%
Wugang Australia	40,399,599	13.02%
Baotou Iron & Steel	21,900,000	7.06%
HSBC Custody Nominees	17,722,378	5.73%
SEL Holdings Ltd	16,198,000	5.22%

Key Points

- Magnetite explorer/developer, with a large land package on South Australia's Eyre Peninsula
- Plans for an integrated magnetite mining and export business producing up to 15Mtpa of magnetite concentrate, exported through own port
- Strong Board and Management, with extensive Eyre Peninsula iron ore experience
- MD, Mr Jim White was previously GM of OneSteel's Whyalla Steelworks, and oversaw the successful implementation of Project Magnet
- Aggressive work programme, with four separate scoping and pre-feasibility studies currently under way and expected to be completed during 2011 and early 2012
- Two separate joint ventures with major Chinese steel producers WISCO and Baotou
- \$91 million of expenditure committed to date on JV projects, with potential for a further \$24 million to be provided - ~\$27 million has been spent to date
- Proposed CY2011 expenditure of ~\$45 million over the two JV's
- Potential capesize port site identified, with this given "Major Project" status by the State Government and planning well underway
- Strong cash position of \$57 million (\$0.18/share), with a further \$26 million (before tax) payment expected in July 2011

Our View

The Company, with its Chinese JV partners is aggressively advancing the two magnetite JV's on South Australia's Eyre Peninsula, as well as the proposed Sheep Hill port, with the proposed port being a factor that differentiates Centrex from other potential bulk commodity producers in the region.

We see significant risks in the current Eyre Peninsula iron ore projects, largely based on our belief that may be a risk in defining feasible resources. However, the recent resource and resource target upgrades on the Bungalow Project has gone some way to mitigating this.

Also, given the current and future cash position, should the current projects not come to fruition, Centrex will be in a position to make a strategic acquisition. Our view is that the Company needs to be actively looking for such opportunities to mitigate the potential risks of the current projects.

We see the Company's key strengths being its Board and Management, Sheep Hill port project and strong cash position.

When compared with peers we believe Centrex is currently fairly valued on an EV/tonne contained iron basis as an explorer/developer, however with the rapid advancement of the project and definition of resources we would expect this value to rise.

As such we rate Centrex as a SPECULATIVE BUY but with a long term investment view, and potential investors do need to understand the risks involved in an investment in the Company.

Table of Contents

OVERVIEW	3
MAGNETITE DEVELOPER, JV'S WITH MAJOR CHINESE STEEL PRODUCERS	3
LARGE EYRE PENINSULA LAND HOLDING	3
FUNDED THROUGH TO COMPLETION OF BFS.....	4
SIGNIFICANT CASH POSITION – EYRE CONSOLIDATION?	4
EXPERIENCED BOARD AND MANAGEMENT	5
PORT PLANNING IS WELL ADVANCED	5
AGGRESSIVE WORK PROGRAMME FOR 2011	5
KEY INVESTMENT RISKS	5
RECOMMENDATION	5
PROJECTS AND STRATEGY.....	6
INTRODUCTION	6
EYRE IRON JV (CENTREX 40%, WISCO 60%).....	7
BUNGALOW JV – (CENTREX 80%, BAOTOU 20%, EARNING 50%)	10
WILGERUP – (CENTREX 100%)	13
OTHER PROJECTS – (CENTREX 100%)	14
INFRASTRUCTURE	15
INTRODUCTION	15
PORT.....	15
SLURRY PIPELINE	16
RAIL.....	16
WATER	16
POWER	16
DIRECTORS AND MANAGEMENT.....	17
COMPARISON WITH PEERS	18
RISKS.....	19
RESOURCE AND MINING RISK	19
JOINT VENTURE.....	19
CAPITAL EXPENDITURE.....	19
EXPORT COMMODITY PRICES AND EXCHANGE RATES.....	20
PERMITTING.....	20
BACKGROUND INFORMATION	21
INFORMATION ABOUT WISCO	21
INFORMATION ABOUT BAOTOU	21
MAGNETITE	21

Overview

Magnetite developer, JV's with major Chinese steel producers

Focus on South Australia's Eyre Peninsular

Two JV's with major Chinese steel producers

Centrex Metals Limited ("Centrex" or the "Company") is an ASX listed iron ore explorer/developer, with a focus on developing an integrated magnetite mining/export business on the Eyre Peninsula in South Australia. The Company has entered into two separate joint ventures to develop its main projects, one with Wuhan Iron and Steel ("WISCO") on the Eyre Iron Joint Venture ("EIJV") covering the southern Eyre Peninsula projects, and the other with Baotou Iron and Steel ("Baotou", "Bungalow JV") over the Bungalow project. Both partners are major Chinese steel producers, require offtake and hold between them approximately 20% of Centrex. In addition Centrex is currently finalising a JV with WISCO to develop the proposed Sheep Hill bulk commodities port.

Centrex, which listed on the ASX in July 2006, was originally incorporated in March 2001, acquiring a number of Eyre Peninsula iron ore tenements in June of that year. In 2002 the Company entered into a JV agreement with South Australian Iron Ore Group (SAIOG), then a wholly owned subsidiary of the Portman Group, to explore for iron ore on the Eyre Peninsula. After spending ~\$2 million SAIOG withdrew from the JV, with Centrex subsequently acquiring SAIOG, which is now a wholly owned subsidiary of the Company.

Large Eyre Peninsula land holding

The Company currently holds 16 exploration licences

The Company holds iron ore rights to 16 exploration licences on the Eyre Peninsula, with 5 being within the EIJV with WISCO, one in the Bungalow JV with Baotou, one covering the Wilgerup deposit, 5 in the Western Middleback Ranges and four others (Figures 1 and 2).

Figure 1: Centrex Tenements showing JV areas (Source: Centrex March 2011 presentation)

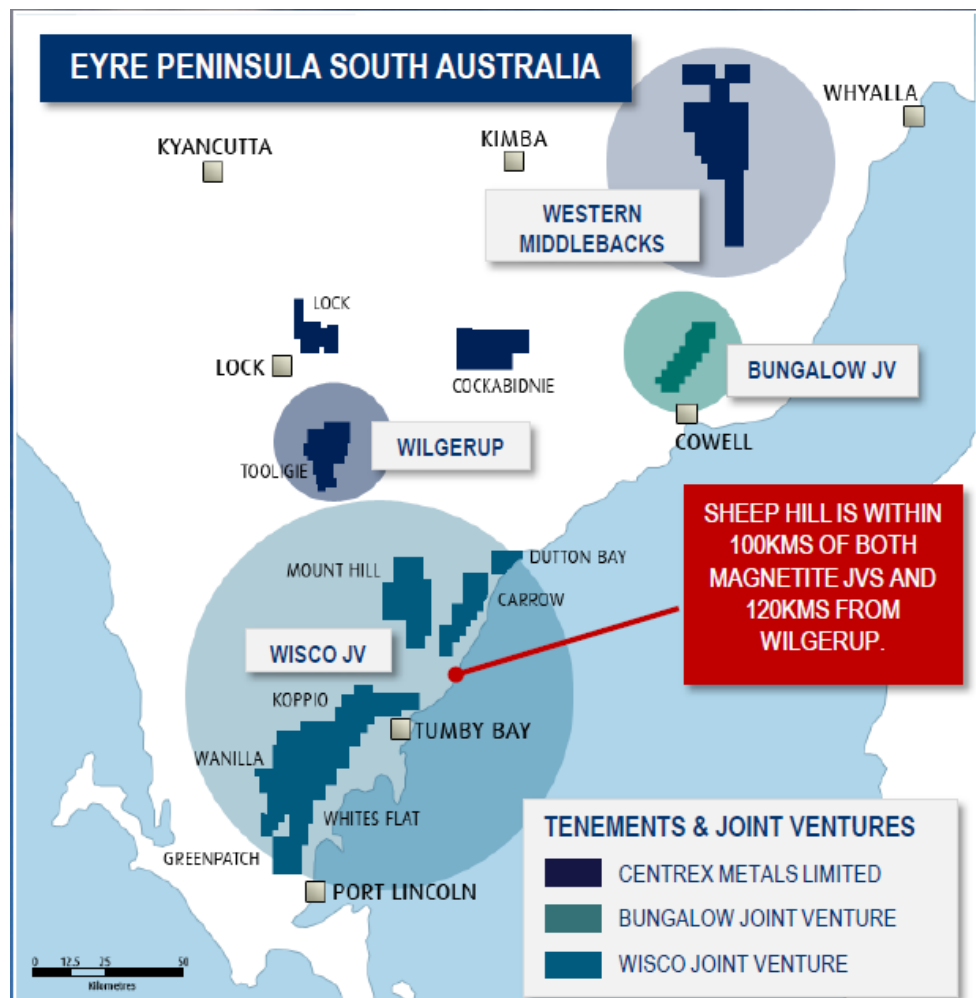
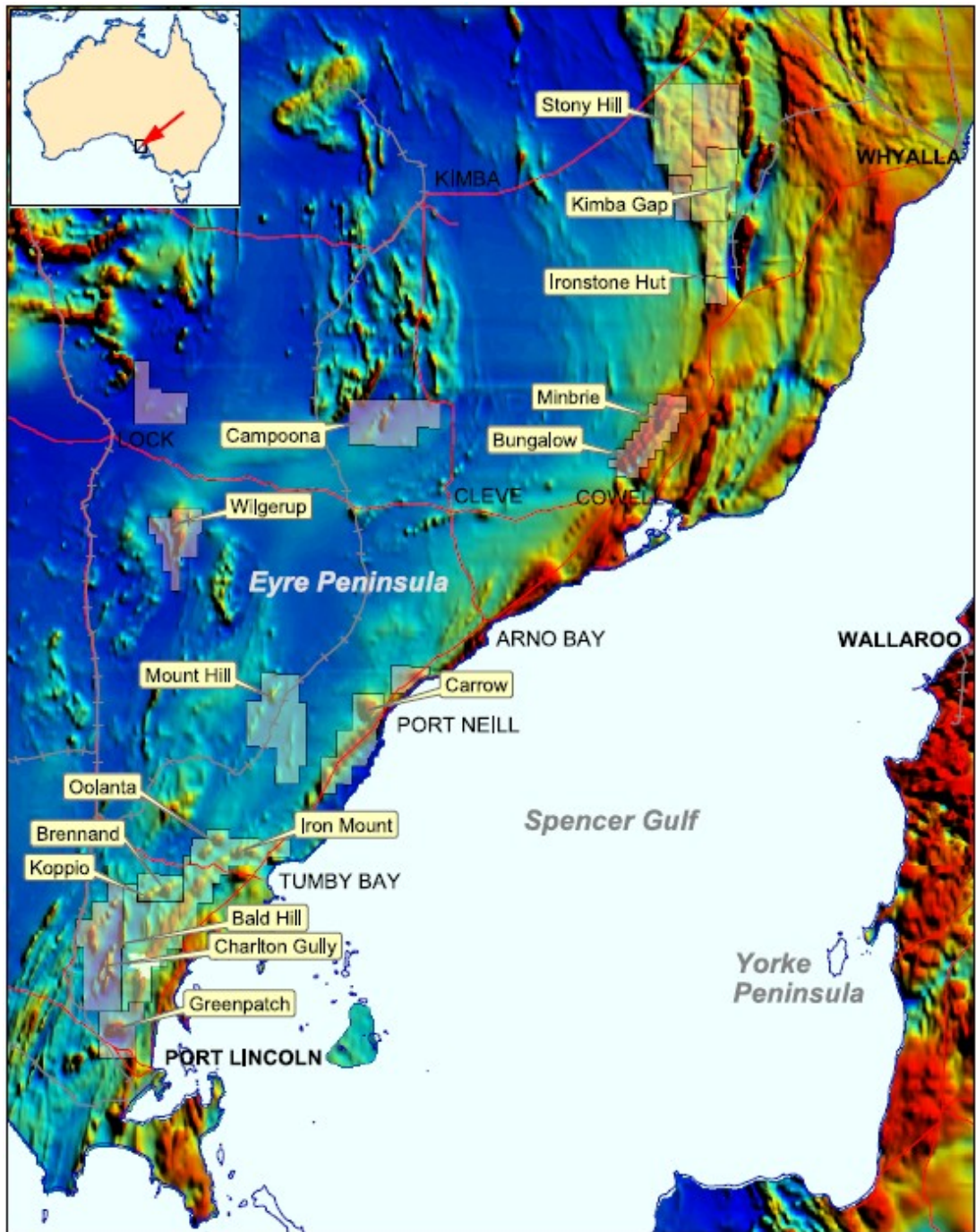


Figure 2: Centrex tenements showing selected prospects (Source: Centrex Prospectus)



A number of the tenements cover geology similar to that of the Middleback Ranges, where OneSteel are currently mining hematite for export and magnetite for steel production at their Whyalla operations. The majority of tenements cover areas of high magnetic signatures.

Geology similar to that which hosts OneSteel's Middleback operations

Funded through to completion of BFS

Two main projects funded through to completion of BFS

In both JV's the projects are funded by the JV partners through to the completion of bankable feasibility studies, with Centrex managing all of the work programmes for the EIJV, and phases 1 and 2 of the Bungalow JV. We consider that the expenditure commitments by the JV partners will be sufficient to complete the relevant studies.

Significant cash position – Eyre consolidation?

Cash of \$57 million, with an additional \$26 (pre-tax) due in July 2011)

With cash of ~\$57 million, and a further \$26 million (before tax) due in July, the Company has significant cash reserves and is in a prime position to look for new assets. This is a key positive for Centrex, and provides a buffer should the current JV projects not progress to development.

Our view is that there is a case for consolidation of iron ore assets on the Eyre Peninsula, with a number of advanced projects having delineated significant resources, but being handicapped by the current lack of infrastructure.

Experienced board and management

Board and management have extensive SA iron and steel experience

The Managing Director, Mr Jim White, has had extensive experience with OneSteel’s Whyalla operations, being integral, as GM of the Whyalla Steelworks, in bringing “Project Magnet” to fruition, both on a technical and community liaison basis. He is supported by a strong team with extensive experience in South Australian iron and steel operations.

Port planning is well advanced

Planning on a key asset, the proposed Sheep Hill export port is well advanced

Planning on the proposed Sheep Hill bulk commodities port is well advanced, with the port also being granted “Major Project” status by the South Australian Government. Work by the Company has shown that a 500m long pier will be sufficient to allow direct loading onto capesize vessels. The Company owns 91ha of land at Sheep Hill, which is located approximately 26km north of Tumby Bay (Figure 1).

The project is a proposed 50:50 joint venture between Centrex and WISCO, with a HOA being signed in April 2010, and completion of the JV expected in Q2, CY2011.

We believe that this is a key strength of the Company, with infrastructure being a key consideration in bulk commodities projects.

Aggressive work programme for 2011

Aggressive work programme for 2011-05-20

Scoping and feasibility studies will be ongoing throughout 2011, with an aggressive work programme, including scoping and pre-feasibility studies funded by the JV partners currently underway. \$91 million funding has been committed to date, with the potential for a further \$24 million on the Bungalow project.

This work programme should provide a steady news flow throughout the year.

Key investment risks

There are a number of risks, and our view is that the key risk is resource and mining

As with any speculative stock there are a number of risks. We consider the main risks to be:

- Resource and mining
- Joint Venture
- Capital Expenditure
- Commodity export prices and exchange rates
- Permitting

Of these we consider the resource and mining risk to be the most significant. These are more fully detailed later in this document.

Recommendation

We rate CXM as a SPECULATIVE BUY, however with a long term investment view

Despite what we consider significant risks, we rate Centrex as a SPECULATIVE BUY, however with a long term investment time frame. We see the resource and mining risk as significant, which has the potential to derail any future projects. The risks however are mitigated by Centrex’s significant cash position, which will allow the company to pursue other opportunities should the Eyre projects not come to fruition. In addition we see the strong Board and Management and port project as significant strengths in the Company

The Company is currently valued on par with its peers; however we see potential for uplift in the rapid advancement of the projects.

Projects and Strategy

Introduction

Centrex holds 16 exploration licences on the Eyre Peninsula of South Australia (Figures 1 and 2), with these as follows:

- Eyre Iron JV with WISCO – five tenements
- Bungalow JV with Baotou – one tenement
- Wilgerup Hematite – one tenement
- Western Middleback Ranges – five tenements
- Others – four tenements

CXM holds 16 exploration licences in the Eyre Peninsula, including two groups in JV's with major Chinese steelmakers

The strategy is to develop an integrated magnetite export operation, initially exporting 15mtpa concentrate through their own infrastructure

The strategy of the Company and JV partners is to develop a magnetite concentrate export operation, with an target of 15mtpa from three processing plants (one within the Bungalow JV and two within the EIJV) exported via slurry pipelines through their own planned capesize capable port infrastructure at Sheep Hill. Mining would be through conventional open cut mining. The JV partners are looking to commence production by 2014/2015.

The project areas are largely located over units of the early Proterozoic Middleback Subgroup of banded iron formations (BIF) that host the currently operating iron ore mines of OneSteel. The Middleback operations have been producing for over 100 years, and historically produced over 200Mt of high grade hematite ore, and more recently magnetite ore.

The Company has BIF resources totalling 322Mt in an exploration target of 1,616 to 3,032Mt as shown in Table 1 below. In addition it has 14.1Mt of DSO hematite at its 100% owned Wilgerup deposit. Resources and targets at Bungalow were recently upgraded.

Table 1: Resources and exploration targets

Magnetite and Hematite BIF Resources and Targets (100% basis)				
Deposit	Inferred Resources (Mt)	Exploration Target (Mt)*	DTR (%)	Notes
Iron Mount	7	26 - 39	37.2	EIJV
Brennand	0	40 - 176	25.4	EIJV
Koppio	40	57 - 74	29.6	EIJV
Bald Hill	29	257 - 325	27.7	EIJV
Charlton Gully	0	244 - 290	N/A	EIJV
Greenpatch	88	78 - 163	26.7	EIJV
Dutton Bay	0	32 - 57	N/A	EIJV
Carrow	56	86 - 110	31.2	EIJV
Mount Hill	0	266 - 1048	N/A	EIJV
Bungalow	103	530-750	29.4	Bungalow JV
Total	322	1,616 – 3,032	*Target is inclusive of resources	
Wilgerup DSO Hematite Resources				
Category	Resource (Mt)	Fe Grade (%)	SiO2 Grade (%)	Notes
Indicated	13.3	57.7	4.8	
Inferred	0.8	56.6	5.2	
Total	14.1	57.6	4.8	100% Centrex

Current BIF resources stand at 322Mt, with an exploration target of 1,616 to 3,032Mt

The original plan to mine the Wilgerup DSO deposit has been reviewed, with focus now on the magnetite

The original focus of Centrex was to mine the Wilgerup hematite deposit and export through Port Lincoln; this has subsequently been reviewed with the focus now on the magnetite. Since signing of the two JV's in mid-2010 the relevant operating JV companies have embarked on intense work programmes.

Targeted timeframes for the current programmes are as follows:

- June 2011 – Completion of Bungalow Scoping Study (Baotou JV), progressing into PFS if positive
- June/July 2011 – Completion of Carrow JORC-compliant resource
- November 2011 – Completion of Carrow PFS (WISCO JV)
- Q1, CY2012 – Completion of Bungalow PFS, progressing onto BFS if positive
- April 2012 – Completion of Fusion (Koppio, Iron Mountain, Oolanta) and Greenpatch PFS (WISCO JV)
- April 2012 – Commencement of BFS on preferred WISCO JV project, for completion by mid 2013

The Company and JV partners have an aggressive work programme in place, with a steady news flow through 2011-05-20

Eyre Iron JV (Centrex 40%, WISCO 60%)

Background and History

The Eyre Peninsula Joint Venture tenements are located at the southern end of the Eyre Peninsula, to the north of Port Lincoln (Figures 1 to 3). The joint venture is between WISCO and Centrex, with WISCO holding 60% of the iron ore rights (all other metals are excluded), and with a joint venture company Eyre Iron Pty Ltd (“Eyre Iron”) managing the work programmes. Historically drilling was carried out by the South Australian Department of Mines (“SADM”) and the SAIOG, with CXM carrying out limited drilling at Carrow in 2008. Drilling then recommenced in late August 2010 following the signing of the WISCO JV.

Centrex are in a 40:60 JV with WISCO on the Eyre Iron JV

Figure 3: Centrex Metals and SAIOG (100% Centrex subsidiary) tenements over which the EPJV has iron ore mineral rights (Source: CXM 2010 Annual Report)



The JV with WISCO was finalised, following government approvals, on July 7, 2010, with terms as follows in Table 2 below. The JV includes two parts, firstly a cash payment of up to \$186 million for the iron ore rights over the tenements, and secondly sole funding of the initial \$75 million of expenditure by WISCO. To date ~\$16.8m has been spent by the JV company on the project, with a planned budget of ~\$35m to the end of CY2011.

The JV allows for cash payments of up to \$186 million to CXM, and sole funding of \$75 million of the BFS costs.

WISCO has paid the initial purchase instalment of \$52 million to Centrex; the second tranche of \$26 million is due to be paid on July 7, 2011.

The aim of the JV is to define sufficient resources to support two 5mtpa processing operations

The aim of the JV is to define sufficient resources to support two 5mtpa processing plants, with work programmes now well advanced. Eyre Iron currently has ~70 staff and contractors on site. Our view is that approximately 1 billion tonnes of mineralisation will be required to support a 20 year, 10mtpa operation, assuming a 30% DTR recovery and 70% conversion of resources to reserves.

Table 2: WISCO JV Terms (Source: CXM release, 21 July, 2009)

Detail	Terms	Comment
Participating interest	40:60 (Centrex:WISCO)	In iron ore rights
First resource instalment	A\$52,000,000	Paid July 7, 2010 - Completion
Second resource instalment	A\$26,000,000	Payable on July 7, 2011 - the first anniversary of the
JORC Inferred Resource milestone	4 x payments of A\$27,000,000 each	If and when JORC Inferred Resource reaches 1.25Bt; 1.5Bt; 1.75Bt and 2Bt respectively
Sub Total	A\$186,000,000	When inferred resources reach 2Bt
Share Placement (15% issued capital)	A\$10,090,000	WISCO subscribed for 40,399,599 shares at \$0.25 on November 26, 2009, taking a 13.04% stake, raising \$9.7 m
TOTAL	A\$196,090,000	
Work commitment	A\$75,000,000 Once the A\$75,000,000 has been expensed, Centrex and WISCO will pay called sums into Eyre Iron Pty Ltd in proportion to interest held in the joint venture.	WISCO to sole fund first A\$75,000,000 in Work Commitments with: A\$50,000,000 paid into the joint venture on the Completion Date, and A\$25,000,000 payable to the joint venture on the first anniversary of the Completion Date.
Sheep Hill port participating interest	50:50 (Centrex:WISCO)	Centrex and WISCO to jointly develop a capesize capable port at Sheep Hill.
Project financing beyond Bankable Feasibility Study	WISCO to arrange project financing	

CXM has received the first purchase payment of \$52m, with an additional \$26m (pre-tax) due in July 2011.

Additional payments totalling \$108m are dependent upon resource targets being met

The most advanced project is Carrow, with 15,000m of drilling completed, and a resource statement due within the next few months

The most advanced prospect is Carrow, with approximately 15,000m of resource definition drilling recently being completed and Eyre Iron currently carrying out a PFS. This results of this drilling, at down to 160m x 80m spacing is being used for resource modelling, with metallurgical and geotechnical holes also being drilled.

It is expected that the resource modelling for Carrow will be completed in June/July 2011, with finalisation of the PFS expected in November 2011. As part of their activities the Company has purchased approximately 1320ha of land covering the bulk of the Carrow mineralisation.

Work is currently underway at other prospects, including Koppio.

Eyre Iron is currently completing resource definition drilling at Koppio, part of the "Fusion" Project (Koppio, Iron Mount and Oolanta), with this being used in the current scoping study which is expected to be completed by April 2012. The planned work at Koppio includes 10,500mm of diamond and 10,000m of RC drilling, which is nearing completion. Following the completion of drilling at Koppio, a diamond drilling programme of approximately 11,200m will commence at Oolanta and Iron Mount.

A Scoping Study is also underway at Greenpatch, with Eyre Iron recently completing 1,750m of resource definition drilling.

Geology and Mineralisation

The Eyre Iron JV is located over units of the Middleback Subgroup

The Eyre Iron JV is located over units of the Middleback Subgroup, and at Carrow is dominated by carbonate BIF, interbedded with calc-silicate units. The Carrow mineralisation is structurally complex, with BIF occurring in 10-50m thick intervals. Carrow is also covered by between 10 to 100m of both insitu and transported cover, which will be a significant factor in any future mining operation. In addition the mineralisation is complex, being faulted and

intruded, and with thicknesses of BIF vary greatly along strike.

Work to date indicates DTR recoveries in the order of 30%, producing a high quality magnetite concentrate

The Koppio mineralisation, which outcrops, is more siliceous than Carrow and occurs as three to four separate BIF units in an overall ~100m thick lithological package. Separate BIF units are between 10-40m thick.

In all cases the BIF's are generally banded, with magnetite rich beds interbedded with magnetite poor beds, indicating the potential for pre-concentration.

Work to date indicates good DTR recoveries of ~30%, producing a 70% Fe, 2% Si product at a 75µm grind at Carrow. Although finer grained, the Company will be carrying preliminary Koppio testwork at a similar grind size.

Current resources stand at 219Mt, with an upgrade expected in June/July 2011-2011

Resources

Current resources within the JV area include 219Mt of JORC-compliant resources (Table 1) and an exploration target (inclusive of resources) of 1086 to 2282 Mt over the entire area. A resource upgrade is expected in June-July 2011, with the Company aiming for an initial inferred resource of >500Mt.

Proposed operations include opencut mining feeding two 5mtpa concentration plants, with concentrate transported to the proposed Sheep Hill port through slurry pipelines

Proposed Operations

Operations are planned to include open-cut mining, feeding two 5Mtpa concentration plants. Magnetite concentrate would then be transported to the proposed Sheep Hill port facility through slurry pipelines.

The general complexity of mineralisation, and the cover at Carrow, indicates that any mining activities will be relatively high strip, and that careful planning and selective mining may be required to limit dilution. These factors will add to the operating cost, with prestripping also incurring additional capital expenditure. These will also affect resource to reserve conversions.

The distribution of mineralisation through a number of areas will also mean that a number of pits will be required through the life of any future operation. We see the above factors as key risks in the project.

It is possible that the mineralisation will be amenable to pre-concentration

It is possible that the mineralisation will be amenable to pre-concentration through coarse cobbing, involving crushing followed by a preliminary magnetic separation prior to fine grinding and final concentration of the magnetic fraction. Centrex are currently working on the flow sheet as part of the scoping and pre-feasibility studies.

Bungalow JV – (Centrex 80%, Baotou 20%, earning 50%)

Background and History

The Bungalow JV tenement is located north of Cowell, with CXM in JV with Baotou

The Bungalow JV tenement is located immediately to the north of Cowell in the central Eyre Peninsula (Figure 1). As for the Eyre Iron JV the target at Bungalow is magnetite mineralisation.

On May 30, 2007 Centrex signed an MOU with Baotou, with a joint venture agreement finally being completed on June 18, 2010. The terms (Table 3) allow for Baotou to earn up to 50% of the iron ore rights in the project through staged expenditure of up to \$40 million. Baotou has made the Stage 1 and 2 payments totalling \$16 million to date, and earned 20% of the project. **The Stage 2 payment was made ahead of schedule, with activities now under way (expected completion in Q1, 2012), and the Company also expects an accelerated start to Stage 3.** The project is being operated through a JV company, with Centrex managing Stage 1 and 2.

Historically the area was drilled by the SADM in the late 1950's, with later drilling by SAIOG. Centrex recommenced drilling at Bungalow in August 2008, completing approximately 5,000m of drilling by the end of the December quarter. Drilling recommenced in August 2010 following signing of the Baotou JV, with a programme of 14,036m being completed in late January 2011.

Table 3: Baotou JV Terms (Source: CXM release, 15 January, 2010)

Baotou has the right to earn 50% of the project through staged expenditure totalling \$40m. \$16m has been paid to date

Detail	Terms	Comment
Participating interest	50:50 (Centrex:Baotou)	In iron ore rights
Stage 1 payment (Scoping Study)	A\$8,000,000	Payable within 14 days of the Exploration Commencement Date. At the end of Stage 1 Baotou shall have earned 10% of the iron ore rights
Stage 2 payment (PFS work)	A\$8,000,000	Payable on decision to proceed to Stage 2 – this was paid ahead of schedule on February 16, 2011.
Stage 3 payment (BFS work)	A\$24,000,000	Payable on decision to proceed to Bankable Feasibility Study (BFS). If the BFS costs <A\$40,000,000 Baotou will be reimbursed outstanding amounts. If the BFS exceeds A\$40,000,000 Centrex and Baotou shall equally contribute additional costs
Sub Total	A\$40,000,000	Assuming Stages 1, 2 and 3 completed

Geology and Mineralisation

Geology is similar to that at the WISCO JV.

Bungalow and the associated Minbrie prospects are located along an 18km long NE-SW magnetic high (Figure 4). As for the WISCO JV prospects, the geology is similar to that of the Middleback Range deposits of OneSteel, and is dominated by BIF's of the Middleback Subgroup.

A number of ore types have been recognised, including skarns and BIFs, with possible DSO mineralisation being contained in the skarns

Initial work identified silica BIF as the dominant mineralisation; however more recent drilling has identified a number of other ore types, including skarn mineralisation (with possible DSO potential) and coarser carbonate BIF units. The package is extremely deformed, forming tight folds, intruded by granites and faulted. A diagrammatic representation is shown in Figure 5

Thicknesses of the mineralisation are variable along strike; however the Company indicates that the stratigraphic package is generally around 40m thick, with local structural thickening. DTR recoveries reported by the Company indicate an average mineralised zone thickness of approximately 130m, including 50% internal dilution

The area is covered by between 20 to 100m of unconsolidated Tertiary cover, with this generally thickening towards the north, being thickest over Minbrie.

DTR testwork was originally designed for the finer grained silica BIF, with a 32µm grind size. Results of work to date indicate an average 29.4% mass recovery (>10% DTR intervals) to a

high quality 68.5% Fe, 3.3% Si magnetite concentrate.

Figure 4: Bungalow/Minbrie areas on magnetic image (Source: CXM December 2010 Quarterly)

The mineralisation is hosted along an 18km NE trending magnetic high, with this still largely untested by drilling

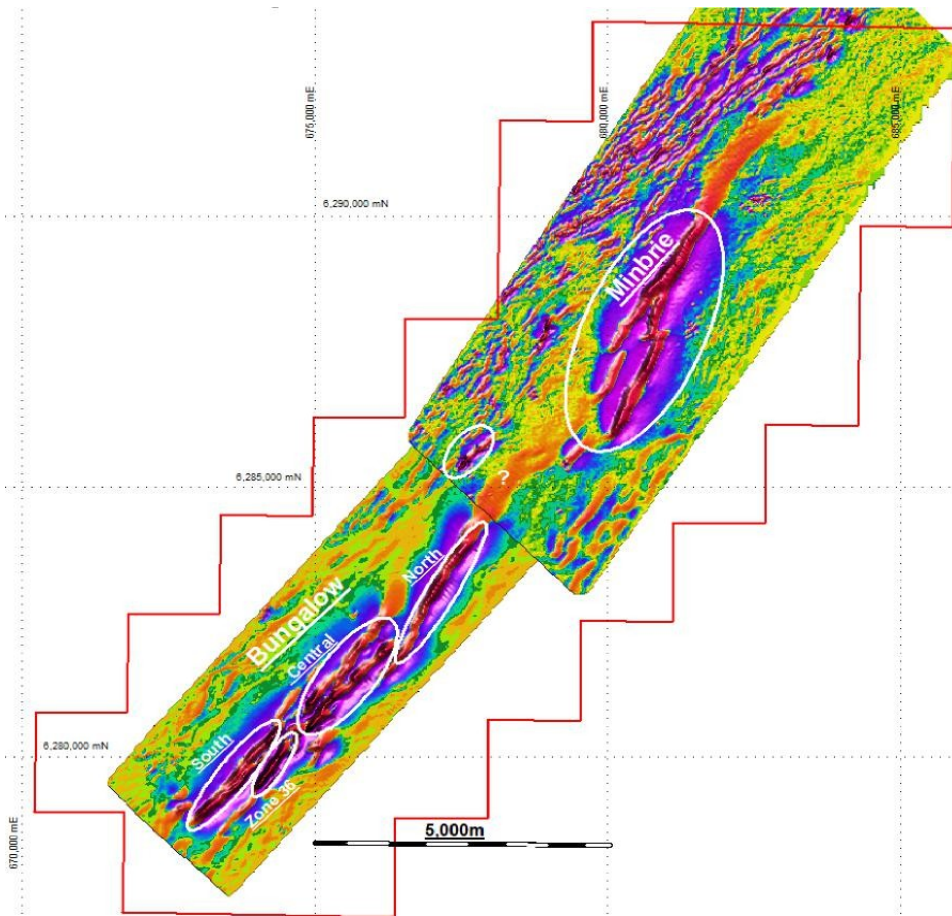
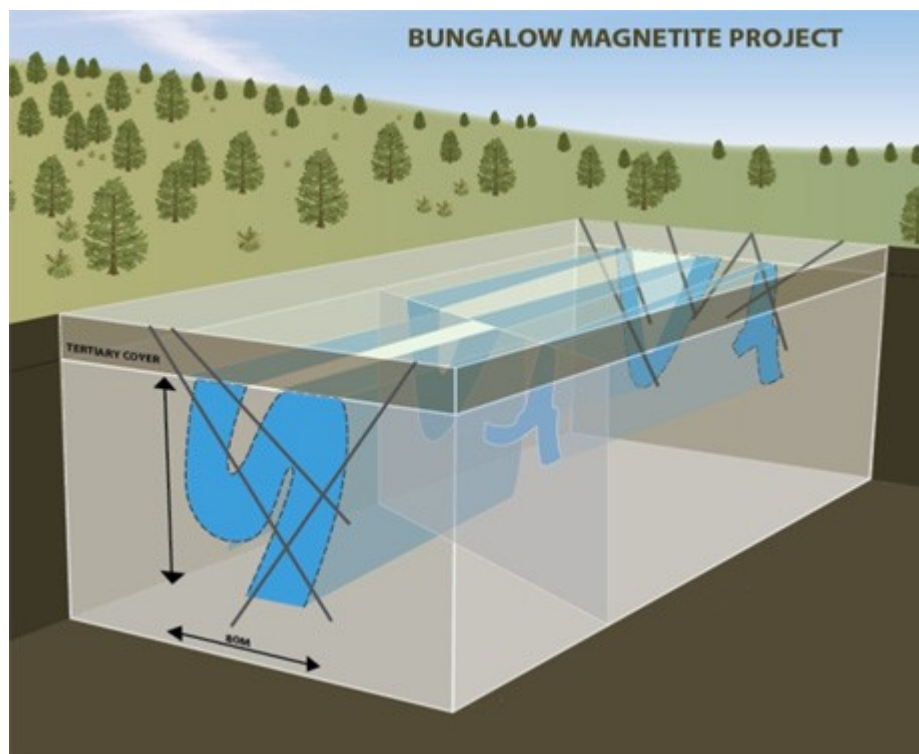


Figure 5: Cartoon of Bungalow mineralisation (Source CXM website, extracted April 9, 2011)



Resources

The Company recently announced an upgraded inferred resource of 103Mt @ 29.4% DTR for Bungalow, within a significantly upgraded exploration target of 530Mt to 750Mt. This resource was based only on Stage 1 drilling over Bungalow South, Zone 36 and with some limited work over Bungalow Central (Figure 4, Table 5). Stage 2 drilling is ongoing.

Table 4: Bungalow resources and exploration targets(Source: Centrex release, May 10, 2011)

Inferred Resources – 10% DTR cut off					
Domain	Tonnage Mt	DTR %	Concentrate Fe %	Concentrate SiO₂ %	Head Grade Fe %
Bungalow South	78	27.5	68.1	3.7	24.0
Zone 36	15	39.8	70.5	2.1	31.3
Bungalow Central	11	29.1	67.1	2.5	26.6
Total	103	29.4	68.5	3.3	25.3
Exploration Targets					
Domain	Tonnage Range Mt		Head Grade Range Fe %		
Minibrie	250	350	26	32	
Bungalow North	150	190	26	32	
Bungalow Central	100	145	26	35	
Bungalow South	20	40	23	27	
Zone 36	10	25	28	32	
Total	530	750	25	32	

A recent resource and exploration target upgrade indicates that the project has the potential to supply a planned 5mtpa concentrating plant

The upgrade of the exploration target from 127-417Mt to 530-750Mt is significant, and indicates that there is now the scope for the project to contain resources sufficient to produce 5mtpa of concentrate from a standalone processing plant. Our view is that such a project will need to have a life of at least 20 years, and will require at least 500 Mt of resources, assuming a DTR recovery of 30% and a resource to reserve conversion factor of 70%.

As discussed below the critical issue will be mining costs (and hence resource to reserve conversion).

Proposed Operations

Operations will be similar to those planned at the Eyre Iron JV, with 5mtpa concentrated transported by slurry pipeline to the Sheep Hill port

Operations are planned to include open-cut mining, feeding a 5Mtpa concentration plant. Magnetite concentrate would then be transported to the proposed Sheep Hill port facility through slurry pipelines.

As for Carrow, the generally complex nature of the mineralisation, and the cover, indicates that any mining activities will be relatively high strip, and that careful planning and selective mining may be required to limit dilution. These factors will add to the operating cost, with prestripping also incurring additional capital expenditure. The Company is however confident that a feasible mining plan can be developed.

The recent discovery of higher grade (possibly DSO) skarn mineralisation and areas of shallower cover indicates that there is the possibility of mining these areas early in any proposed mine-life, thus improving economics.

It is also possible that the BIF mineralisation will be amenable to pre-concentration through coarse cobbing, involving crushing followed by a preliminary magnetic separation prior to fine grinding and final concentration of the magnetic fraction. Centrex are currently working on the flow sheet as part of the scoping study.

Wilgerup – (Centrex 100%)

Background and History

The Wilgerup DSO hematite project is located north of Port Lincoln (Figure 1), and until the WISCO and Baotou JV's were signed was the main focus of Centrex's activities.

The hematite mineralisation was originally identified by WMC in the early 1990's, with subsequent work by Rio Tinto Exploration and Dampier Mining Limited defining a 7.85 Mt @ ~60% Fe hematite resource in two lenses. Subsequent work by SAIOG and Centrex has defined a resource of 14.1Mt @ 57.6% Fe and 4.7% Si.

Initial plans by Centrex were to mine Wilgerup and truck to a new rail siding and then rail for export through Port Lincoln. Significant work had been carried out, with the Company's Development Application to use the port being approved by the Minister on October 6, 2009. This approval followed being offered a Mining Lease over Wilgerup on May 14, 2009.

The Company's plans included exporting 1.6mtpa of DSO hematite ore for 10 years. The plan for now is to truck Wilgerup ore to the proposed Sheep Hill Port following commencement of magnetite concentrate exports from the JV projects. Indicative timing for commencement is 2014/2015.

Geology and Mineralisation

Mineralisation at Wilgerup occurs in two lenses – a northern lens marked by upgrading of lower grade BIF with martite, hematite and goethite and a southern lens comprised largely of a hematite schist. The northern lens is marked by low silica but relatively high phosphorous, with the southern containing high silica (up to 12%) but lower phosphorous.

The company has defined three ore types at Wilgerup – massive hematite, hematite clay and hematite carbonate.

The mineralisation is covered by up to 20m of unconsolidated cover.

Resources

Resources for Wilgerup are shown in Table 5 below.

Table 5: Wilgerup Resources (Source: Centrex 2008 AGM presentation)

Indicated Mineral Resource October 2008							
Ore Type	Fe% Cut-off	Tonnage (Mt)	Fe	SiO2	Al2O3	LOI	P
Massive Hematite	55	10.5	59.8	3.6	2.3	4.5	0.49
Hematite Carbonate	45	0.6	50.1	6.5	3.6	7.8	0.65
Hematite Clay	45	2.2	50.0	10.4	4.8	6.7	0.54
Total	13.3	57.7	4.8	2.8	5.0	0.51	0.51

Inferred Mineral Resource October 2008							
Ore Type	Fe% Cut-off	Tonnage (Mt)	Fe	SiO2	Al2O3	LOI	P
Massive Hematite	55	0.6	58.9	4.0	2.3	2.9	0.56
Hematite Carbonate	45	0.1	50.3	6.3	2.8	7.9	0.54
Hematite Clay	45	0.1	50.3	10.0	3.3	6.4	0.60
Total	0.8	56.6	5.2	2.5	4.0	0.57	0.57

The Wilgerup deposit has a resource of 14.1Mt @ 57.6% Fe

The Company's initial plans were to ship 1.6mtpa DSO ore through Port Lincoln, with the DA to use the port being approved in 2009.

The Company now plans to truck ore to Sheep Hill after commencement of the magnetite operations

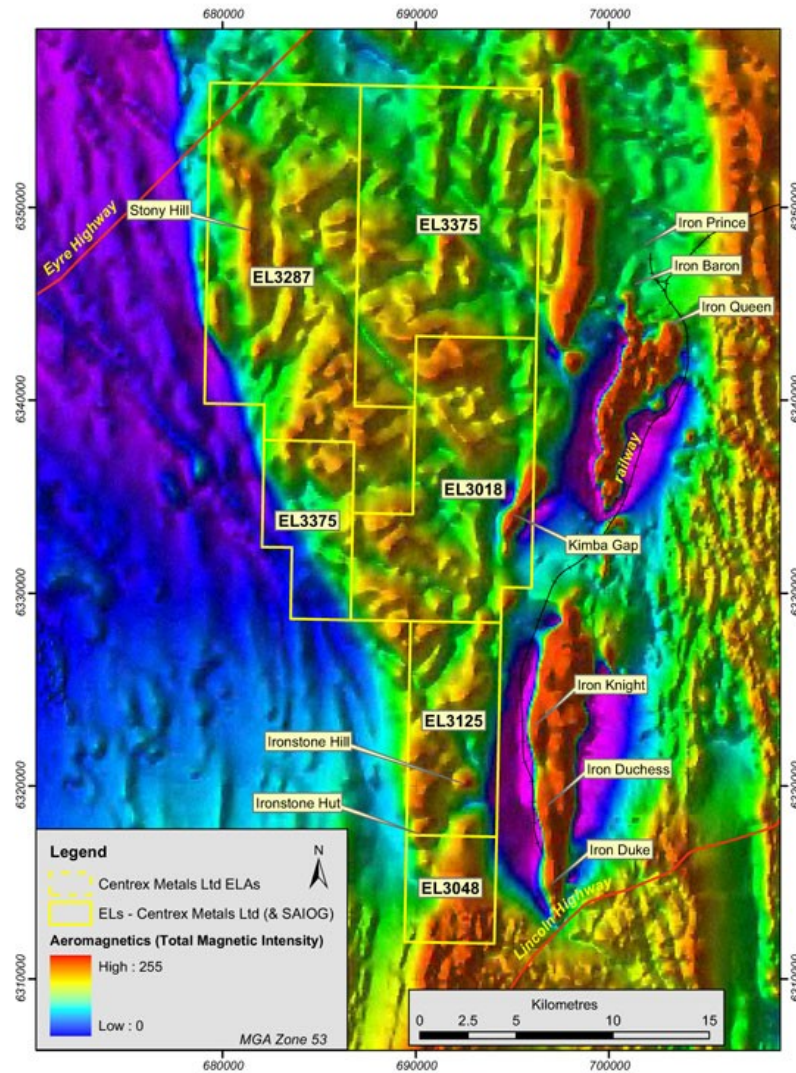
Mineralisation occurs in two lenses

Other Projects – (Centrex 100%)

Centrex holds a number of other tenements within the Eyre Peninsula, including the Western Middleback package, Cockabidnie (Campoona on Figure 3) and Lock. These are all considered prospective for iron mineralisation, with the Western Middleback package being immediately to the west of OneSteel’s Middleback operations (Figure 5)

The Company holds a number of other projects on the Eyre Peninsula, as well as a magnetite skarn project near Goulburn in NSW

Figure 5: Western Middleback tenements and targets on magnetic image (Source: Centrex website, extracted April 10, 2011)



A number of areas requiring follow up have been identified in these areas.

A number of areas requiring follow up have been identified on the other projects

Centrex also has the Goulburn Skarn Project, located near Goulburn in southern New South Wales. The project is considered prospective for magnetite and base metals, and the Company recently completed an airborne magnetic survey over the project.

Infrastructure

Introduction

The key to any bulk commodities project is the access to infrastructure – in effect these projects become infrastructure plays. Centrex is no different – the commencement of any large scale magnetite will require investment in significant infrastructure including:

- Port
- Slurry pipeline
- Water supply; and
- Electricity.

Port

Centrex, in a 50:50 JV with WISCO (yet to be formally signed) is planning to construct a new bulk commodities port facility at Sheep Hill, approximately 26km northeast of Tumby Bay on the southern Eyre Peninsula (Figures 1 & 6)

Figure 6: Proposed Sheep Hill port layout (Source: CXM website, extracted April 9, 2011)

A key strength of the company is the proposed Sheep Hill bulk export port, located north of Tumby Bay

The company is negotiating a 50:50 JV with WISCO for development of this facility



The Eyre Peninsula, and South Australia in general are currently poorly served by bulk export facilities

The Eyre Peninsula, and in general South Australia are poorly serviced by bulk commodities ports, which is holding back the development of a number of promising projects in the state. Although it was announced on May 16, 2011, that the proposed bulk facility at Port Bonython would now progress to an EIS, the three year delay to this important project has affected potential South Australian iron ore producers. In addition third party access is currently not an option through OneSteel's Whyalla port facility.

Those projects that are looking like going ahead have had to opt for higher cost alternatives, utilising restricted capacity at current ports. These companies and projects include:

- WPG Resources, planning to rail and ship approximately 3mtpa of DSO hematite mineralisation from their Peculiar Knob Project through Port Pirie.
- IMX Resources, who are currently ramping up to ship ~1.7mtpa of ore from their Cairn Hill operation through Port Adelaide. This requires material to be containerised, necessitating high operating costs.

Centrex has made major advancements on the planning of the Sheep Hill port, with significant events including:

Centrex has made significant advances in the planning of the port, with it being granted "Major Project" status by the State Government

- The granting of "Major Project" status by the State Government
- Lodgement of a preliminary development application by Centrex for guideline assessment
- Significant studies, including marine surveys and hydrology largely completed
- Completion of a number of environmental surveys
- Purchase of 91ha of land, which is considered suitable for the proposed operation.

Features of the proposed port include:

- 500m jetty to 20m deep water – no expensive dredging required
- This will allow capesize vessels to be directly loaded
- Initial capacity of 20mtpa at a single berth, however with the potential to increase capacity through adding a second berth through forming a "T" at the end of the jetty
- Estimated capital cost of \$150 million for the jetty and loading facilities (this does not include land infrastructure)
- Potentially a multi-user facility
- Relatively sheltered, indicating minimal demurrage due to adverse weather
- Provision made for future rail access

Local grain growers have also shown interest in using the proposed facility

In addition to shipping iron ore, local grain growers have shown interest in the port as a grain export facility.

Slurry Pipeline

The Company plans to transport concentrate using a slurry pipeline, with numerous examples in use around the globe

The Company plans to transport magnetite concentrate from the proposed beneficiation plants using a slurry pipeline. Such pipelines are well proven, low operating cost ways of transporting concentrates, with examples including Grange Resources' Savage River to Port Latta pipeline in Tasmania and a number of examples up to ~400km long in Brazil. Baotou, the Bungalow JV partner has also recently constructed a ~150km slurry pipeline in China.

Being buried they are environmentally low impact, with the main impacts being during construction. They are also low maintenance facilities, with the concentrate self-coating and hence protecting the inside wall of the pipe from wear. As an example, the Savage River pipeline has operated for over 40 years without any issues.

Rail

Existing rail infrastructure is unsuitable for iron ore transport

The current rail network on the Eyre Peninsula is narrow gauge light grain rail, unsuitable for iron ore transport. The Company however has made provision for rail access to the proposed port should rail upgrades (and a possible connection to the standard gauge transcontinental line) be made in the future.

Water

The Company will include a desalination plant and return water pipelines as part of the project infrastructure

Given that Eyre Peninsula groundwater is generally highly saline and unsuitable for the processing plants, Centrex plans to construct a desalination plant at the Sheep Hill Port, with return water pipelines running parallel to the slurry pipelines.

Total annual water requirements are approximately one gigalitre per Mtpa of product, indicating a total requirement of 15 gigalitres. Approximately 50% of this would be recovered from dewatering of the concentrates, with the balance made up from desalination.

Power

Electranet has a plan to upgrade the existing power network by ~2018, and is willing to assess the possibility of bringing this forward

Power requirements for any proposed project will be in the order of 50MW for each 5Mtpa plant, and in the order of 10MW for the port (including desalination plant).

The current Eyre Peninsula transmission network does not have the capacity to support the proposed operations, and the Company is looking at power options. Electranet, South Australia's regulated Transmission Network Service Provider has a plan to upgrade the current network by ~2018, and is willing to assess the possibility of bringing this plan forward should potential demand warrant it.

Directors and Management

Mr David Klingberg AO, FTSE, B.Tech, FIE Aust, FAus IMM, FAICD - Chairman

Mr Klingberg has 34 years experience as a professional engineer including 10 years as CEO with Kinhill Limited managing professional engineering services to resource development and other industries. Retired recently as Chancellor of the University of South Australia after 10 years. Director of ASX Listed Codan Limited and E&A Limited. Director of Snowy Hydro Limited, Chairman of Barossa Infrastructure Limited and Chairman of the Premier's Climate Change Council.

Mr Jim White B.App. Sci(Met), FIEAust, CP Eng. - Managing Director

Mr. White is a metallurgist who has spent his career with BHP and OneSteel, with a focus on steelmaking, exploration and major project development. His involvement, as General Manager of OneSteel's Whyalla Steelworks, in the successful execution of OneSteel's Project Magnet and in government and community liaison is particularly relevant to the Company's plans for the Eyre Peninsula. The successes of \$355 million Project Magnet were threefold, including cost reduction and expansion of production, conversion of the Whyalla Steelworks to magnetite feed, allowing for the export of hematite, and on the environmental side, solving of the historic "red-dust" issue at Whyalla.

Mr Jim Hazel - Non-Executive Director

Mr. Hazel has had an extensive career in banking and investment banking, including as chief general manager of Adelaide Bank Ltd. Until recently he was managing director of an ASX listed retirement village and aged care operation. He is a professional Public Company Director and has served on the Board of Terramin Australia Limited and is currently a Director of Bendigo and Adelaide Bank Limited, Rural Bank Limited, Impedimed Limited and the Motor Accident Commission.

Mr Kiat Poh Dip C.E. - Non-Executive Director

Mr Poh is a Singaporean citizen, and has over 30 years experience at senior management level in the financial, engineering, real estate development, quarrying, manufacturing and construction industries. He was the Managing Director of SGX-listed Teamsphere Limited from 1998, heading the strategic management and business development of the Company prior to Delong Steel's successful reverse acquisition of Teamsphere Limited in 2005. Since 2005, he has managed an investment advisory company in Singapore that focuses on participating in strategic stakes in listed companies.

Mr John den Dryver B Eng (Mining), MSc - Non-Executive Director

Mr den Dryver is a Mining Engineer with extensive project development and operational management experience at a senior level in the mining industry, including taking projects in Australia and overseas from grassroots exploration through feasibility, financing and into implementation. His role with Newmont Australia – the former Normandy Mining Group – included detailed feasibility and development implementation of underground mining operations, assessment and acquisition of mineral projects in Ghana, as well as significant operational involvement with North Flinders Mines and The Granites gold mine in the Northern Territory.

Mr den Dryver is a current Director of Gascoyne Resources Ltd, Adelaide Resources Ltd, and Helix Resources Ltd.

Mr Graham Chrisp B Tech (CE) - Non-Executive Director

Mr Chrisp has a degree in Civil Engineering & has substantial experience in numerous aspects of business operations, including design & construction of roads & other earthworks, mineral exploration & property development. He was a founding director of Centrex Metals Limited (having previously served as its managing director) & Lincoln Minerals Ltd. He is also Managing Director of unlisted public company Energy Exploration Ltd & has numerous private interests.

Mr Chrisp is also a Director of unlisted South Cove Ltd, the largest shareholder in the Company. Accordingly, he is not considered to be "independent" for the purposes of the Company's corporate governance policies.

Mr Xiaopeng Yin- Non-Executive Director

Mr Yin is General Manager of Mineral Industry Corporation and Chairman of Wugang Australian Resources Investment Pty Ltd, the Company’s second largest shareholder. Both are wholly owned subsidiaries of Wuhan Iron & Steel (Group) Co (WISCO). Mr Yin has many years experience working in the mining industry.

He is presently a director of Consolidated Thompson Mines Ltd (Canada) and was the General Manager of Daye Iron Ore Mine (located in Hubei province, China) which has 5,000 employees and produces 1.1Mt of iron ore concentrate per annum.

As Chairman of Wugang Australian Resources Investment Pty Ltd, an unlisted company that is the second largest shareholder in the Company, Mr Yin is not considered to be “independent” for the purposes of the Company’s corporate governance policies.

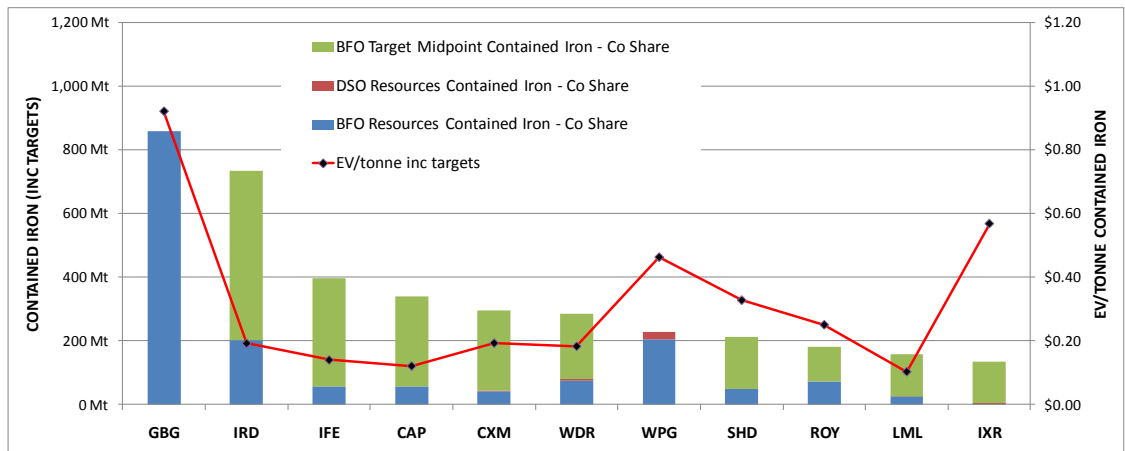
(Director profiles largely sourced from Company website, April 5, 2011)

Comparison with peers

We have compared Centrex with a number of developers/producers concentrating on beneficiation iron (BFO) projects. In addition, we have included Gindalbie Metals (ASX:GBG) and IMX Resources (IXR) who are currently developing their assets. This comparison is shown in Figure 7 below. We have also included WPG Resources (ASX: WPG) who are developing their Peculiar Knob hematite DSO Project in South Australia, but who also have significant magnetite resources.

The graph below shows contained iron for resources and the midpoint of exploration targets on an ultimate company equity basis, as well as the diluted EV/tonne of contained iron.

Figure 7: Comparison of BFO iron developers explorers/developers (Source: IRESS, company releases)



*Ultimate company equity share of resources shown
Diluted EV = market cap – cash – significant other assets + debt*

Although Centrex would appear to be valued on par with its peers, we can see the potential for uplift in value on advancement of the Company’s projects

The weighted average of EV/tonne for all companies above is \$0.38/tonne; and excluding advanced developers (GBG and IXR) is \$0.21/tonne

What can be seen on the above graph is that the two most advanced companies, GBG and IXR have the highest EV/tonne contained iron values which is to be expected. Centrex has a value on par with other companies at a similar stage, and thus cannot be said to be over- or undervalued on this basis.

Where we would see potential uplift is advancement of the project and conversion of exploration targets to resources.

Risks

As with any speculative stock there are a number of risks. We consider the main risks to be:

We see a number of risks in an investment in Centrex

- Resource and mining
- Joint Venture
- Capital Expenditure
- Commodity export prices and exchange rates
- Permitting

Of these we consider the resource and mining risk to be the most significant

Resource and Mining Risk

We consider resource and mining risks as key risks

We consider the resource and mining risk to be the major risk with Centrex, with drilling to date indicating complex deposits with relatively narrow zones of mineralisation when compared to a number of other potential magnetite developers. These issues are exacerbated in some cases by significant cover, which will involve a large pre-strip of unconsolidated material. Although such material is relatively low cost to dig, the unconsolidated nature requires that the pit walls in this material need to be at shallow angles, meaning larger volumes of material need to be moved.

The complexity of, and cover over a number of the deposits will potentially lead to relatively high mining costs

Published results of DTR testwork at Bungalow show that there is on average 50% internal dilution in the overall mineralised zones, with the average downhole zone width being ~130m, with an average length of 65m of potentially ore grade (average 34% DTR) material.

The limited results published to date from Carrow indicate generally narrow zones of mineralisation, again indicating any future operations will be relatively high strip, and with potentially low resource to reserve conversion factors.

These factors will increase the strip ratio and require that mining operations may need to be selective. This will increase the operating costs of any future project. However, the generally high DTR results do go some way to mitigating this risk.

However, the recent resource and exploration target upgrade at Bungalow has been significant for Centrex, with there now potentially being sufficient mineralisation to feed a 20 year, 5mtpa concentrate operation.

Joint Venture

Having majority or 50:50 JV partners has the potential to take important decisions out of Centrex's hands, however the strong balance sheets of the partners are allowing for aggressive work programmes and will be invaluable when accessing capital for development

A second concern regards the joint ventures that Centrex has entered into, especially with WISCO. WISCO now have a controlling interest in the EIJV, and will have a 50% interest in the port JV when the final agreement is signed.

These agreements ultimately take control of the projects out of the hands of Centrex and have the potential to negatively impact on Centrex, particularly should opinions differ on whether projects are to progress or not.

The JV risk is partially mitigated by Centrex's strong cash position – it is under no obligation to make any significant expenditure until any decisions to proceed to development are made, and thus is in a position to conserve cash. Thus, should the current planned operations not go ahead Centrex will be in a position to look for other assets.

In addition the strong balance sheets of the JV partners are enabling an aggressive work programme to be carried out, and will be invaluable to fund capex when and if a decision to develop any of the projects is made.

Capital Expenditure

Magnetite projects require large investments in capital, however this is mitigated by the strong balance sheets of the JV partners

Magnetite projects require significant amounts of capital expenditure to get into production. Recent blowouts in estimated costs have also occurred for a number of projects, including Gindalbie's Karara Project and CITIC's Sino Iron Project, both located in Western Australia.

Rule of thumb capital expenditures for these projects are in the order of A\$200/annual tonne, indicating a potential capital cost of \$2-3 billion for any future project.

This risk is mitigated to some degree by the JV partners, who have strong balance sheets and access to the capital required.

Export Commodity Prices and Exchange Rates

Commodity prices and exchange rates are perennial risks in resource projects, particularly in bulk commodities

Resource projects are invariably impacted by changes in exchange rates and metals prices. Recent rises in the AUD: USD exchange rate will have the effect of cutting margins on Australian resources projects, given that most metals are priced in US dollars.

Given that magnetite projects can be relatively high cost/low margin operations, any changes in rates and prices will have significant effects on the viability of projects.

Permitting

Permitting risk is somewhat mitigated by the Company's recent track history and the "Major Project" status of the port

Permitting is a common risk in any proposed resources project. We believe, however, that the generally strong community support for development, at least in the Central Eyre Peninsula, will aid in permitting. Also, Centrex now have a track record in obtaining permits for the now suspended Wilgerup Mine. It is possible that potential operations in the southern part of the WISCO JV may be more problematic, given the higher value agricultural land in the part of the project area.

The "Major Project" status of the proposed port will also help with permitting.

Background Information

Information about WISCO

WISCO is the third largest steel producer in China, producing ~30mtpa of steel

Wuhan Iron & Steel (Group) Co (WISCO) is ranked third in its sector in China, with a current annual capacity of 30 million tonnes of steel, which requires in the order of 50Mt of iron ore to produce. WISCO's operations are predominately located in Wuhan in the Hubei province of central China. WISCO operates an integrated supply chain comprising mining, coking, sintering, pelletising, iron making, steel making and rolling operations. WISCO's assets were valued at 118 billion RMB (A\$26 billion) in 2007. WISCO has a 48.3% interest in Kunming Iron and Steel Corporation which is located in Yunnan province. WISCO also has an 80% interest in the Guangxi Iron and Steel Group which currently has approval to construct a new 10 million tonne steel plant in the Guangxi port of Fangchenggang, with further plans to expand the facility to 50 million tonnes per annum by 2011.

Baotou produces ~8mtpa of steel products

Information about Baotou

Baotou Iron and Steel (Group) is a state owned enterprise and is the tenth largest steel producer in China, producing over 8 million tonnes of steel products per year, requiring ~14 million tonnes of iron ore. Baotou is part of the Baogang Group based in Inner Mongolia.

Magnetite

Magnetite is a significant source of iron ore worldwide

Magnetite (Fe_3O_4) is a significant source of iron ore worldwide, and is prevalent in China, North America, the C.I.S. and Europe.

Historically, given the discovery of massive DSO hematite (Fe_2O_3) resources in the Pilbara in the 1960's, the bulk of Australia's iron ore production has been from these ores, which can be mined and shipped without significant beneficiation. The depletion of these high quality hematite resources with the concomitant increase in the mining of lower quality DSO material, and the increases in iron ore prices have led to a significant increase in interest for magnetite projects in Australia.

Although magnetite operations require higher operating and capital costs than DSO operations, this is largely offset by the higher prices received for the premium magnetite product

Magnetite ores generally need to be beneficiated to produce a feed suitable for steel making, with this requiring additional capital and operating costs over that required for DSO hematite operations. Indicative operating costs over that required for DSO operations can be in the order of \$10-\$20/tonne of ore for beneficiation, and up to \$20/tonne of concentrate for pelletising. Indicative additional capital costs can be in the order of \$50/annual tonne for crushing and concentrating, and \$70/annual tonne for pelletising. One offset of these costs can be where a slurry pipeline is used to transport concentrate – these have lower unit capital and operating costs than comparable rail transport systems.

This beneficiation however can result in a high quality (68-70% Fe, low impurity) product suitable for direct reduction (DRI) in electric arc furnaces. Magnetite products include concentrate and pellets, and the high quality (and value adding) of these products results in a premium price being paid for them, offsetting the additional capital and operating costs.

This premium is currently in the order of \$0.05/dmtu, and when combined with the higher grade (~68% Fe vs 63% Fe) of magnetite concentrate, the price differential per tonne of ore, at the current fines prices of \$1.79/dmtu for fines is in the order of \$12/tonne.

Direct reduction is a process whereby furnace feed is reduced directly to iron without the need for reductants such as coke. As contaminants are not removed a high quality feed is required which can include low contaminant magnetite, and more commonly scrap. Approximately 68Mt of the 2008 total steel production of 1.3Bt was through direct reduction (source: Midrex 2008 DRI production statistics), with "mini-mills" being a common user of this process. This has grown approximately 55% from 44Mt in 2000.

Minesite beneficiation is generally relatively simple

Given the magnetic properties of magnetite the beneficiation process at the mine site is generally relatively simple. This process commonly involves crushing and grinding, followed by magnetic separation. In some cases reverse flotation is also used. The final concentrate is then commonly pelletised with a binder to form material suitable for furnace feed.

Up until recently Grange Resources' (ASX: GRR) Savage River in Tasmania was the only significant magnetite producer in Australia, however recent developments have included

***Until recently
Grange resources
was Australia's only
magnetite producer,
however has been
now joined by
OneSteel as a
producer and CITIC
and Gindalbie as
developers***

OneSteel (ASX:OST) converting their Whyalla steelmaking operations to use magnetite feed whilst exporting their hematite. Both of these operations include pelletiser plants and slurry pipelines between minesite concentrators and their pelletisers.

In Western Australia, CITIC Pacific is well advanced in construction of their Sino Iron Project, located near Cape Preston in the Pilbara, with first production expected in 2011. The project will produce up to 27.6Mtpa mixed magnetite concentrate and pellets, with a capital cost in the order of \$5.2 billion (source CITIC Pacific release, 5/2/2008). Other advanced magnetite projects include Gindalbie's (ASX:GBG) Karara projects, located in Western Australia which is looking at an initial production of 8mtpa magnetite concentrate (+2mtpa DSO hematite)..

Disclaimer

The following Warning, Disclaimer and Disclosure relate to all material presented in this document and should be read before making any investment decision.

Warning (General Advice Only): Past performance is not a reliable indicator of future performance. This report is a private communication to clients and intending clients and is not intended for public circulation or publication or for the use of any third party, without the approval of Taylor Collison Limited ABN 53 008 172 450 ("Taylor Collison"), an Australian Financial Services Licensee and Participant of the ASX Group. TC Corporate Pty Ltd ABN 31 075 963 352 ("TC Corporate") is a wholly owned subsidiary of Taylor Collison Limited. While the report is based on information from sources that Taylor Collison considers reliable, its accuracy and completeness cannot be guaranteed. This report does not take into account specific investment needs or other considerations, which may be pertinent to individual investors, and for this reason clients should contact Taylor Collison to discuss their individual needs before acting on this report. Those acting upon such information and recommendations without contacting one of our advisors do so entirely at their own risk.

This report may contain "forward-looking statements". The words "expect", "should", "could", "may", "predict", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of and guidance on, future earnings and financial position and performance are also forward looking statements. Forward-looking statements, opinions and estimates provided in this report are based on assumptions and contingencies which are subject to change without notice, as are statements about market and industry trends, which are based on interpretations of current market conditions.

Any opinions, conclusions, forecasts or recommendations are reasonably held at the time of compilation but are subject to change without notice and Taylor Collison assumes no obligation to update this document after it has been issued. Except for any liability which by law cannot be excluded, Taylor Collison, its directors, employees and agents disclaim all liability (whether in negligence or otherwise) for any error, inaccuracy in, or omission from the information contained in this document or any loss or damage suffered by the recipient or any other person directly or indirectly through relying upon the information.

Disclosure: Analyst remuneration is not linked to the rating outcome. Taylor Collison may solicit business from any company mentioned in this report. For the securities discussed in this report, Taylor Collison may make a market and may sell or buy on a principal basis. Taylor Collison, or any individuals preparing this report, may at any time have a position in any securities or options of any of the issuers in this report and holdings may change during the life of this document.

Analyst Interests: The Analyst(s) may hold the product(s) referred to in this document, but Taylor Collison Limited considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s)' holdings may change during the life of this document.

Analyst Certification: The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date Prepared: **May 2011**

Analyst: **Mark Gordon**

Release Authorised by: **David Cutten**

Taylor Collison Limited
Sharebrokers and Investment Advisers
A.B.N. 53 008 172 450 AFSL No. 247083

Level 16, 211 Victoria Square
Adelaide, South Australia, 5000
G.P.O. Box 2046, Adelaide, South Australia, 5001
Telephone: 08 8217 3900 Facsimile: 08 8231 3506
Email: broker@taylorcollison.com.au

Level 10, 167 Macquarie Street
Sydney, New South Wales, 2000
G.P.O. Box 4261, Sydney, New South Wales, 2001
Telephone: 02 9377 1500 Facsimile: 02 9232 1677
Email: sydney1@taylorcollison.com.au

Participant of the Australian Securities Exchange Group
www.taylorcollison.com.au
ESTABLISHED 1928