

Centrex Metals Ltd (CXM)

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Well Funded Magnetite - Trading Below Cash Backing

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Key Points

- Centrex (CXM) is exploring and developing magnetite and hematite iron ore assets in the Eyre Peninsula region of South Australia.
- Key focus is on advancing the Eyre Iron and Bungalow magnetite projects. Both projects are fully funded to feasibility by high quality Chinese JV partners.
- CXM also has an advanced DSO hematite project with a JORC Mineral Resource of 10.5Mt @ 59.8% Fe. Timing of a proposed 1-1.5Mtpa operation (7 year mine life) is dependent on Port Spencer

Two Funded Magnetite Projects + a Port Option

Eyre Iron is a JV with Wuhan Iron and Steel (Group) Co (WISCO), CXM retaining 40%. Current resources across the 4 Project Fusion magnetite deposits total 653Mt, with resource increases likely.

A DFS based on a 5mtpa operation is currently well advanced, with the results due in mid 2013.

Funding for the DFS is coming from the original \$75m that WISCO contributed to the project. JV funding is sufficient to complete the DFS.

Drilling on additional resources is ongoing, the DFS may be expanded to include additional resources, this could see the results delayed to later in 2013.

Bungalow Magnetite project is a JV with Baotou Iron and Steel Group (Baogang) (CXM 70%, Baogang earning 50%). The 338Mt resource is located on northern Eyre Peninsula with concentrate likely to be exported through Port Spencer.

A PFS is expected to be completed shortly on the project. Baogang is funding the PFS.

Port Spencer is a 50/50 JV with WISCO for the development of a 20Mtpa, multi user, deep-water bulk commodity facility.

Wilgerup DSO project is a 100% Centrex owned hematite project, with JORC Resources of 10.5Mt @ 59.8% Fe

Additional Projects include 100% interest in 8 iron ore exploration licences on Eyre Peninsula and also base metals projects in NSW. CXM recently signed a HoA with a 3rd Chinese partner to fund exploration on the NSW projects.

Investment Thesis: CXM is one of our preferred magnetite juniors as they have a number of positive attributes, namely;

- Two well funded JV's with quality Chinese steel companies.
- Potential access to a deep water port, with relatively low construction costs.
- Infrastructure advantages including grid power and close to large regional towns to source employees.

CXM is in a strong cash position with \$63m and trading below cash backing.

Risks: CXM is a high risk investment with growth dependant on successful development and exploration, any investment should be viewed as speculative. Considerable capital will be required for future mine development.

Recommendation

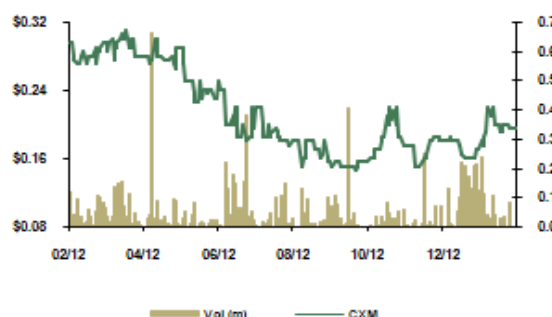
Spec Buy

Risk Rating	Very High
Current Share Price	\$0.19
52 Week Price Range	\$0.14 – \$0.31
Market Capitalisation	\$61m
Cash (31/12/12)	\$63.3m
Debt (31/12/12)	Nil

Board of Directors & Management

David Klingberg (Chairman)
Jim White (Executive Director)
Jim Hazel (Non-Executive Director)
Kiat Poh (Non-Executive Director)
John Dryver (Non-Executive Director)
Graham Chrisp (Non-Executive Director)
Bingqiang (James) Lu (Non-Executive Director)
Ben Hammond (Chief Development Officer)
Alastair Watts (General Manager Exploration)

CXM Share Price



Source: Iress

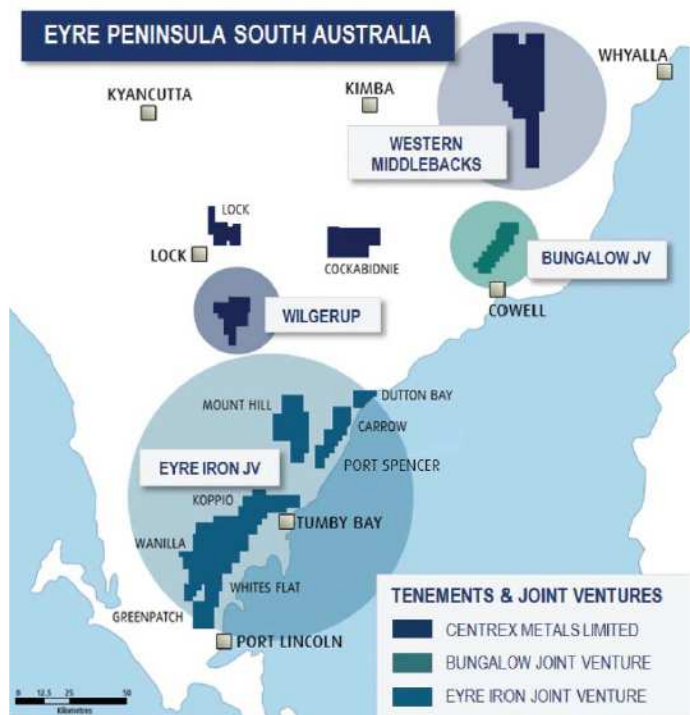
Major Shareholders	Shares (m)	%
Graham Chrisp (Director)	101.4	32.3
WISCO (JV Partner)	40.4	12.9
Baotou Iron & Steel (JV Partner)	21.9	7.0
United Iron	15.0	4.8

Projects

CXM has extensive tenement holdings over iron ore resources and exploration targets on Eyre Peninsula in the southern Gawler Craton (South Australia).

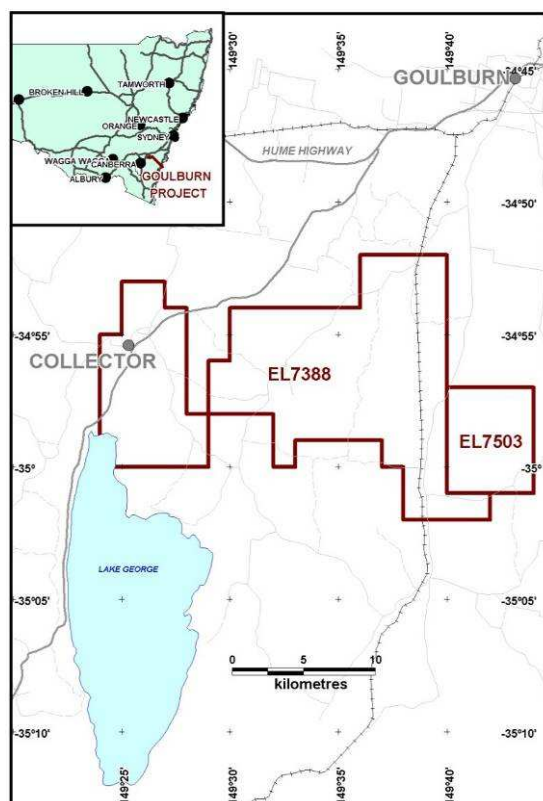
CXM also holds two tenements near Goulburn in New South Wales. These tenements are considered to be prospective for base metal and skarn style magnetite and mineralisation. Skarn style mineralisation is commonly associated with either metals and mineral containing gold, lead, zinc and tin.

Eyre Peninsula Projects



Source: Company Report

Goulburn (NSW) Exploration Tenements



Source: Company Report

Eyre Iron Magnetite Joint Venture (CXM 40%)

Centrex holds a 40% participating interest in the JV

The Eyre Iron Joint Venture partners (CXM and WISCO) are currently undertaking resource expansion and development studies on five iron ore exploration licences located in the southern Eyre Peninsula, South Australia.

The JV has completed more than 119,000m of drilling, along with numerous environmental, metallurgical and engineering studies across three major projects; **Fusion**, **Carrow** and **Greenpatch**. Additional drilling is underway at Bald Hill.

Fusion Project was selected as the preferred project for first development due to its superior resource base and potential

Scoping study work completed in May 2012 indicated that on assumed production of 5Mtpa to 10 Mtpa exporting out of Port Spencer, Fusion will have estimated FOB operating costs including royalties of between \$71 and \$65 a tonne and require estimated capital investment (including port facilities) of between \$1.7bn and \$2.6bn.

A \$45 million DFS is now under way and is expected to be completed in mid 2013, based on an annual production schedule of between 5Mtpa and 10Mtpa.

Independent Infrastructure solution

One of the main advantages that CXM has with Project Fusion is that the infrastructure required is not dependent on government or other third parties for development. CXM and the JV partners are in control of their own timelines.

Large Resource base and growing

Across the Eyre Iron JV the total resources are 866Mt, comprised of: Fusion 652Mt @ 24.7% Fe, Carrow 159Mt @ 27.2% Fe and Greenpatch 55Mt @ 24.9% Fe.

Carrow Project

Carrow is one of the smaller magnetic anomalies within the JV, however its close proximity to a proposed export hub (Carrow is located just 25 km from the proposed Port Spencer deep water export facility) and its favourable relatively coarse grind size make it a likely development project. Timing for advancing Carrow is dependent on Port Spencer.

Greenpatch Project

In early 2012, Centrex announced a 54.8 Mt Resource at Greenpatch with an estimated magnetite recovery(DTR) of 26.8% and a concentrate grading 68.3% Fe.

However given the proximity of the deposit to the town of Port Lincoln it is highly unlikely that CXM, or other parties, will develop the project.

Fusion Resources						
Fusion Summary Mineral Resources						
Classification	Tonnage (Mt)	Head Grade		DTR (%)	Concentrate Grade	
		Fe (%)	SiO ₂ (%)		Fe (%)	SiO ₂ (%)
Measured	10.8	22.7	52.3	18.0	68.2	4.1
Indicated	276.1	24.4	50.5	21.5	68.5	3.8
Inferred	365.9	25.0	45.3	24.5	65.6	6.2
Combined Mineral Resources						
Total	652.7	24.7	47.6	23.1	66.8	5.2

Source: Company Presentation

Carrow and Greenpatch Resources						
Carrow Deposit Summary Mineral Resources & Exploration Targets						
Mineral Resource Classification	Tonnage (Mt)	Head Grade		DTR (%)	Concentrate Grade	
		Fe (%)	SiO ₂ (%)		Fe (%)	SiO ₂ (%)
Indicated ⁽²⁾	72.4	27.3	40.1	28.7	68.5	3.31
Inferred ⁽²⁾	86.8	27.2	41.6	27.0	65.4	6.73
Total	159.2	27.2	41.0	27.8	66.9	5.18
Exploration Target Extension ⁽²⁾⁽⁴⁾						
Minimum	40.0	25.0		25.0		
Maximum	60.0	29.0		29.0		
<small>*DTR (percent weight recovery) and concentrate results were from Davis Tube test work performed at P80 passing -75µm</small>						
Greenpatch Deposit Summary Mineral Resources & Exploration Targets						
Mineral Resource Classification	Tonnage (Mt)	Head Grade		DTR (%)	Concentrate Grade	
		Fe (%)	SiO ₂ (%)		Fe (%)	SiO ₂ (%)
Inferred ⁽²⁾	54.8	24.9	33.8	26.8	68.3	2.97
Exploration Target Extension ⁽²⁾⁽⁴⁾						
Minimum	60	23		25		
Maximum	120	27		29		
<small>*DTR (percent weight recovery) and concentrate results were from Davis Tube test work performed at P80 passing -75µm</small>						

Source: Company Presentation

Bungalow Magnetite Joint Venture Project (CXM 70%, diluting to 50%)

Centrex currently holds a 70% participating interest in the JV

The Bungalow Joint Venture Project between Baotou and CXM is located ~9kms north of Cowell and around 90kms from the proposed Port Spencer deep water port export facility, on the east coast of Eyre Peninsula.

The project has a 338Mt Resource, additional exploration targets yet to be tested.

Up to date, the JV has spent \$21m on exploration and development studies and the Prefeasibility Study is expected for completion in late 2012/early 2013.

Bungalow Resources

Bungalow and Minbrie Mineral Resources Summary ⁽⁶⁾						
Resource Classification	Tonnage (Mt)	Head Grade		DTR (%) [*]	Concentrate Grade	
		Fe (%)	SiO ₂ (%)		Fe (%)	SiO ₂ (%)
Measured (Bungalow)	22.3	29.1	51.8	36.2	70.7	1.9
Indicated (Bungalow)	163.5	30.5	48.5	34.8	69.9	2.5
Inferred (Bungalow)	53.3	31.9	45.3	35.7	69.4	2.6
Total # (Bungalow)	239	30.7	48.1	35.2	69.8	2.4
Inferred (Minbrie)	99	27.0	54.8	32.2	69.2	3.2
Total Resources #	338	29.6	50.1	34.3	69.7	2.7

^{*} DTR (percent weight recovery) and concentrate results were from Davis Tube test work performed at -38µm.
[#] Due to the effects of rounding, overall totals may not be able to be reproduced from individual classification totals.

Source: Company Presentation

Port Spencer Joint Venture Project (CXM 50%)

Port capacity of 20Mtpa with a 5,000tph ship loader

Cape Size Capability

20Mtpa design

State Government Approvals Awarded

CXM and WISCO have entered into a 50/50 joint venture for the development of a deep-water bulk commodity facility at Port Spencer. Deep water is accessible only 500m from shore with no dredging required.

The port will support cape class vessels which range in size from 165,000t to 250,000t. If the port is developed in the time frame that the JV partners suggest it will be South Australia's only Cape Size direct loading facility (Arrium (ARI) currently operate a cape trans-shipping facility).

The design for the port is based around an initial 20Mtpa capacity, which can be expanded to 40Mtpa if demand requires.

The development of the port will be in four stages. Stage One will involve building the foundation port infrastructure and allow the export of hematite and grain delivered to the site by road transport.

Future stages will expand the operation to include the export of magnetite delivered to the site from the source mines by slurry pipelines. The site design also makes provision for future construction of rail in-loading facilities for delivery of grain and ore products if required by future users of the port.

In December 2012 CXM announced that the South Australian Government has provided development approval for Stage 1, this is the final State Government approval necessary to start construction. The last approval required is from the Federal Government, this process is well advanced and final sign off is expected in 1HCY13.

The Port site is located ~70 km NE of Port Lincoln, 21 km NE of Tumby Bay and 20 km SW of Port Neill.

Wilgerup DSO Project (CXM 100%)

Wilgerup Project has a resource of 14.1Mt @ 57.6% Fe and 4.7% Si

The Wilgerup DSO hematite project contains a JORC Mineral Resources of 10.5Mt @ 59.8% Fe. The project is well advanced with mining approvals received for a proposed 1-1.5Mtpa operation over 7 years.

The decision to commence mining depends on the development of Port Spencer. Off-take agreements are already in place.

Wilgerup Resources

Indicated Resources ⁽⁵⁾							
Ore Type	Fe% Cut-Off	Mt	Fe%	SiO ₂ %	Al ₂ O ₃ %	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
Inferred Resources ⁽⁵⁾							
Ore Type	Fe% Cut-Off	Mt	Fe%	SiO ₂ %	Al ₂ O ₃ %	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

Source: Company Presentation

Iron Ore Exploration Projects

CXM also holds 100% interest in iron ore rights to 8 other exploration licences within the Eyre Peninsula. This includes Western Middleback, Cockabidnie and Lock tenements which are all considered prospective for hematite and/or magnetite.

Infrastructure

The proximity of good quality infrastructure close to the project is a key advantage for CXM.

Power

The DFS is based on connection to the national grid, meaning competitive power pricing. ElectraNet, SA's electricity transmission specialist is currently progressing regulatory investment testing for transmission upgrade to the Eyre Peninsula network.

Water

A 4GL per annum capacity desalination facility at Port Spencer is proposed.

Transport & Port

A low cost short-distance slurry transport solution is the preferred long term development option, with port capacity up to 20Mtpa with a 5,000tph ship-loader.

Labour

CXM's projects are located close to existing social infrastructure and a sought after place to live.

Goulburn (NSW) 100% CXM

The Goulburn project includes two tenements with a number of base metal, gold and iron targets. CXM has identified a number of VHMS style targets, along with previously identified skarn style prospects. The projects are located ~20km south of Goulburn.

3rd Chinese JV recently announced

Recently CXM announced they had entered into a Heads of Agreement with the Chinese company Shandong 5th Geo-Mineral Prospecting Institute (Shandong) to earn 35% by spending an initial \$2m. Shandong can earn up to 80% by funding the project through to production. CXM retain a 20% interest

and are free carried through to production.

Exploration conducted to date includes airborne geophysics, ground based geophysics (IP surveys) and successfully negotiating landowner access in October 2012. Now that access has been gained CXM will commence drilling in early 2013.

Early stage exploration work undertaken by CXM has discovered a number historic VHMS and Skarn style mineralised occurrences.

WISCO JV Terms

Execution of binding Heads of Agreement between WISCO and CXM in December 2008

The agreement includes agreements whereby WISCO:

- Pays CXM a total of up to \$186m for a 60% equity in the JV, based on resource milestones
- Sole funds the first \$75m of Work Commitments into the JV to cover exploration and feasibility study costs

WISCO's total investment is \$196m, assuming all milestones are met

Key Commercial Terms of JV

Detail	Terms	Comments
Participating interest	40:60 (Centrex:WISCO)	• In iron ore rights
First resource instalment	\$52m	• Payment made
Second resource instalment	\$26m	• Paid in July 2011
Inferred Resource milestone	4 x payments of \$27m each	• If and when JORC Inferred Resource reaches 1.25Bt; 1.5Bt; 1.75Bt and 2Bt respectively
Sub Total	\$186m	• When Inferred Resource reaches 2Bt
Share Placement (15% issued capital)	\$10m	• Centrex to issue approx 40 million shares (completed 24th Nov 2009)

Source: Company announcements

Baotou JV Terms

Execution of binding Heads of Agreement between Baotou and CXM in September 2007

Baotou will cover costs of activities required to complete exploration and resource drilling and a Bankable Feasibility Study covering development of the Bungalow magnetite deposit.

Baotou will be entitled to 50% of the expected 3 million tonnes of magnetite concentrate produced per year over a potential mine life exceeding 30 years.

Key Commercial Terms of JV

Detail	Terms	Comments
Participating interest	50:50	• In iron ore rights
Stage 1 (for initial 10% interest)	\$8m	• Use of funds for Scoping Study
Stage 2 (for further 10% interest)	\$8m	• Payable on decision to proceed to Stage 2
Stage 3A (for further 10% interest)	\$8m	• Use of funds for resource definition drilling
Stage 3B (for further 20% interest)	\$16m	• Use of funds for Pre-Feasibility Study
		• Payment on October 2011 which resulted in increase of Baotou's iron ore interest to 30%
Sub Total	\$40m	• Payable upon satisfactory progress being made, as assessed by Baotou
		• Assuming Stages 1, 2 and 3 completed

Source: Company announcements

Risks

High Risk

This is a high risk exploration play and any investment should be viewed as speculative.

Other key risks include iron ore prices and exchange rates, capital expenditure amounts, joint venture risks and permitting risks.

Board & Management

David Klingberg

Chairman

34 years experience as a professional engineer, including 10 years as CEO with Kinhill Ltd. Director of Codan Ltd., E&A Ltd., Snowy Hydro Ltd. and Chairman of Barossa Infrastructure Ltd.

Jim White

Executive Director

A metallurgist previously with BHP and OneSteel, with a focus on steelmaking, exploration and major project development. Involvement in the successful OneSteel Project Magnet iron ore export development. Recently resigned as Managing Director due to health issues.

Jim Hazel

Non-Executive Director

Career in banking and investment banking, including as chief general manager of Adelaide Bank Ltd. Director of Bendigo and Adelaide Bank Ltd., Rural Bank Ltd., Impedimed Ltd. and the Motor Accident Commission.

Kiat Poh

Non-Executive Director

Over 30 years experience at senior management level in the financial, engineering, real estate development, quarrying, manufacturing and construction industries. Previously MD of SGX-listed Teamsphere Ltd.

John den Dryver

Non-Executive Director

Mining Engineer with extensive project development and 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. Experience includes roles with Newmont in Ghana, as well as operational involvement at 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.

Graham Chrisp

Non-Executive Director

Founding director of Centrex Metals Ltd (former managing director) and Lincoln Minerals Ltd. Substantial experience in design & construction of roads and other earthworks, mineral exploration and property development. He is also Managing Director of unlisted public company Energy Exploration Ltd and also a Director of unlisted South Cove Ltd, the largest shareholder in the Company.

Bingqiang (James) Lu

Non-Executive Director

Managing Director of Wugang Australian Resources Investment Pty Ltd (WARI), a wholly owned subsidiary of Wuhan Iron & Steel (Group) Corp (WISCO). He is also Managing Director of Eyre Iron Pty Ltd, the Management Company of the Eyre Peninsula Joint Venture between Centrex Metals and WARI.

He holds a Bachelor of Mining from North Eastern University of China and has over 20 years' experience in the mining industry. He has held a number of positions with WISCO in technical, research and infrastructure roles including the position of managing director of WISCO's Jinshanian Mine, an underground magnetite mine.

Ben Hammond

Chief Development Officer

Career in bulk commodities in WA, NSW and SA. Responsible for business development, project management, business improvement, exploration, port mine and rail operations.

Alastair Watts

General Manager Exploration

21 years experience across a range of commodities including iron ore, gold, phosphate and nickel in WA, SA, QLD and SE Asia. Responsible for project management, exploration, quality control and mine geology.

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Recommendation Criteria

Investment View

PhillipCapital Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

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