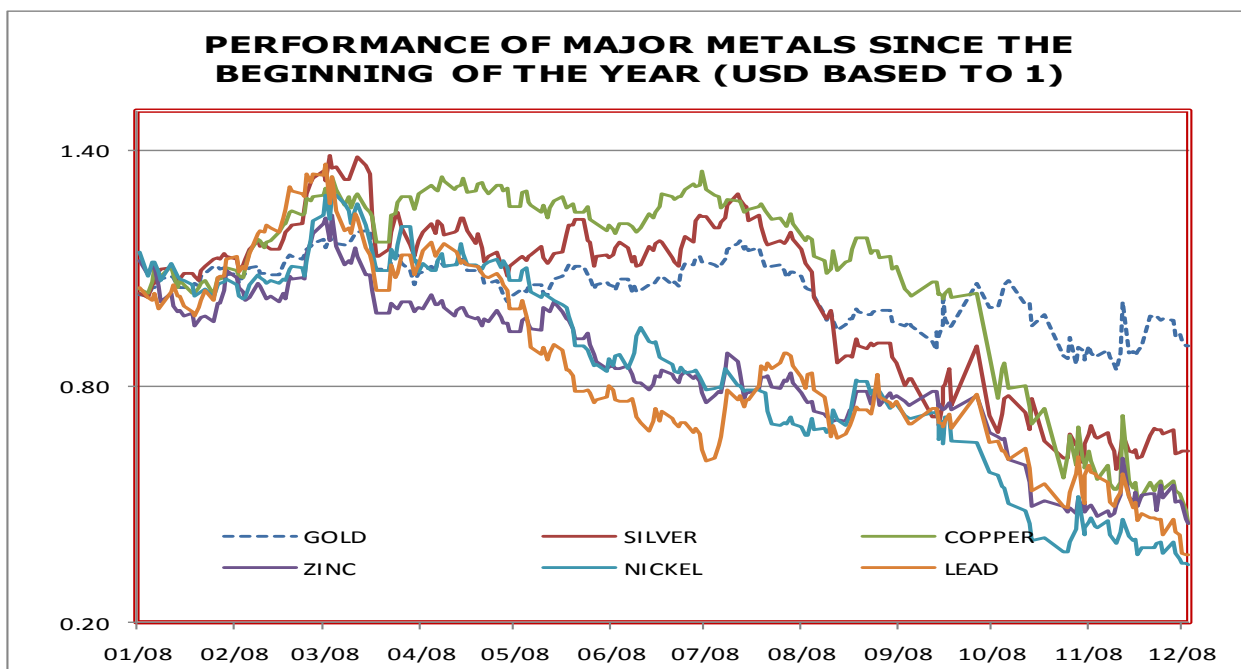




To be blunt, if these prices continued, we would expect 95% of the current base metals companies within Australia not to be around in 1-2 years time, such low prices are simply not sustainable, with all bar the lowest cost debt free companies bleeding cash flow badly at these prices. We do not expect these prices to remain in the longer term, but took a close look at not only valuations, but also short term cash flow positions to see who (if any) were best equipped to survive 6-12 months of sustained low prices.

- The majority of gold producers covered remain strongly cash flow positive at current spot gold prices, which remain high (particularly relative to their base metals counterparts). We would caution that part of the reason for the gold price remaining high is due to the instability of world economies; and should we see stabilization of the global economies we feel gold is most at risk for further downward slides. The clear winner amongst the base metals producers remains **Western Areas**, with a relatively low debt position, and very low operating costs (sub US\$2.50/lb nickel). This company in our view is best positioned to sustain current prices over the longer term.
- When we last analyzed the risk profiles at spot prices in November, we highlighted the risk profiles of favorites such as **PanAust** had increased markedly. At \$US1.37 copper, whilst we see PNA as having sufficient cash flow to meet interest payments, it would have difficulties in meeting its project finance capex repayments. **Equinox** is in a very similar situation to PanAust (not surprising given the similar cost profiles), with very little cash surplus after interest payment, and certainly minimal capacity for exploration/capex/debt repayment. **Oz Minerals** remains operating cash flow positive, with ability remaining for both interest and limited debt repayment; but we would expect abandonment of both dividend payment and development of any new projects.
- **Most at risk are Perilya, CBH, Kagara, Minara and Albidon.** All are relatively high cost, and in our view not as prudently managed as some of the other companies reviewed. Whilst some have what appears to be a healthy cash balance, we feel at spot prices, this cash will be utilized within the short term horizon.





Company	Fixed Costs*/Revenue 2009	2010	Key Commodity
MRE	126%	159%	Ni
KZL	126%	143%	Zn
ALB	158%	133%	Ni
PEM	115%	128%	Zn
CBH	123%	114%	Zn
MCR	103%	102%	Ni
PAN	97%	102%	Ni
PNA	87%	95%	Cu
EQN	85%	94%	Cu
OZL	97%	91%	Zn
JML	91%	89%	Zn
IGO	88%	79%	Ni
LGL	68%	67%	Au
SBM	77%	62%	Au
WSA	74%	61%	Ni
NCM	60%	60%	Au
SGX	61%	58%	Au
MUN	43%	37%	Au
DOM	41%	36%	Au
AVO	45%	35%	Au
KCN	44%	30%	Au

* Interest + Administration + operating costs

The table above shows an increasing number of companies with sustainable costs greater than revenue received. Looking at the highest cost quartile, **Minara, Albidon, Perilya, CBH** and **Kagara** are all severely cash flow negative. Given the current uncertainty surrounding Albidon's long term cost profile (with recent indications of costs higher than originally given, we have upgraded our cost forecasts here, and would be hopefully of reducing costs somewhat once the plant is fully commissioned).

Kingsgate and **Avoca** stand out as having the highest operating margins, however, Avoca is still in commissioning phase, so we have not yet had confirmation of former cost forecasts for this company.

**Evans and Partners Metals recommendations - based on current spot metal prices****As at:**

8 December 2008

Company	Code	Share Price	Rec.	Mkt Cap (\$M)	Val.*	Discount/Premium to Valuation
PanAust Limited***	PNA	\$0.12	Neutral	\$166M	\$0.06	82.0%
OzMinerals	OZL	\$0.55	Neutral	\$1,717M	\$0.69	-20.3%
Equinox Minerals Limited	EQN	\$1.36	Neutral	\$806M	\$0.26	429.2%
Sino Gold Mining Limited	SGX	\$2.96	Negative	\$863M	\$2.35	25.9%
Lihir Gold Limited	LGL	\$2.25	Negative	\$4,923M	\$1.56	43.8%
Newcrest Mining Limited	NCM	\$25.08	Negative	\$11,370M	\$17.64	42.2%
St Barbara Limited****	SBM	\$0.22	Negative	\$286M	\$0.56	-60.8%
Kingsgate Consolidated Limited	KCN	\$2.37	Positive	\$220M	\$6.50	-63.6%
Albidon Limited	ALB	\$0.07	Neutral	\$11M	-\$0.63	NA
Andean Resources Limited	AND	\$0.55	Neutral	\$210M	\$1.96	-72.2%
Kagara Ltd	KZL	\$0.38	Negative	\$82M	-\$1.52	NA
Dominion Mining Limited	DOM	\$3.10	Negative	\$318M	\$3.37	-8.1%
Avoca Resources Limited	AVO	\$1.40	Negative	\$306M	\$2.22	-37.0%
Highlands Pacific Limited	HIG	\$0.05	Neutral	\$29M	\$0.19	-76.1%
Mundo Minerals Limited	MUN	\$0.11	Neutral	\$16M	\$0.87	-87.3%
Copper Strike Limited**	CSE	\$0.06	Neutral	\$5M	\$0.10	-46.5%
Integra Mining Limited**	IGR	\$0.15	Neutral	\$39M	\$1.15	-87.4%
Conquest Mining Limited**	CQT	\$0.16	Neutral	\$58M	\$1.14	-86.4%
Perseus Mining Limited**	PRU	\$0.30	Neutral	\$52M	\$4.13	-92.7%
Exco Resources Limited**	EXS	\$0.08	Neutral	\$20M	-\$0.03	NA

Metal price Assumptions	Current	2009	2010	2011	2012	Long Term
Gold (US\$/oz)	743	755	755	755	755	755
Silver (US\$/oz)	9.45	9.52	9.52	9.52	9.52	9.52
Copper (US\$/lb)	1.64	1.37	1.37	1.37	1.37	1.37
Zinc (US\$/lb)	0.52	0.48	0.48	0.48	0.48	0.48
Nickel (US\$/lb)	4.78	4.07	4.07	4.07	4.07	4.07
Lead (US\$/lb)	0.57	0.43	0.43	0.43	0.43	0.43

For the purposes of this study, we have used current spot prices; both short term and long term. All spot prices bar gold are lower than our current long term assumptions.

Evans and Partners' standard commodity price and currency forecasts are based off the forward curve over the short term (2 years). This data is sourced from LME and the Chicago Board of Trade. The rationale for using this data is we feel it provides a more accurate reflection of future metals prices than conventional forecasting... We deduce our longer term forecasts through a combination of the direction of the forward curve, and an analysis of conventional supply and demand and also cost vs. price analysis. Our long term forecast for the A\$ is 0.78.

* Discounted cash flow valuation

** Requires Significant funding, which is at extreme risk in the current market.

*** \$US80m sub-ordinate refinance pending

**** Issues controlling costs, prefer to view actual maintainable costs on Gwalia Deeps



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Positive	Stock is expected to outperform the S&P/ASX 200 over the coming 24 months
Neutral	Stock is expected to perform in line with the S&P/ASX 200 over the coming 24 months
Negative	Stock is expected to underperform the S&P/ASX 200 over the coming 24 months
Speculative	Stock has limited history from which to derive a fundamental investment view or its prospects are highly dependent on event risk, <i>eg.</i> Successful exploration, scientific breakthrough, high commodity prices, regulatory change, etc.
Suspended	Stock is temporarily suspended due to compliance with applicable regulatory and/or Evans & Partners policies in circumstances where Evans & Partners is acting in an advisory capacity.
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Earnings Outlook	Forecast 2 year EPS growth.
Earnings Momentum	Percentage change in the current consensus EPS estimate for the stock (rolling 1 year forward basis) over the consensus EPS estimate for the stock 3 months ago.
Shareholder Returns	Composite of forecast ROE (rolling 1 year forward basis) and the percentage change in ROE over 2 years.
Debt Servicing Capacity	Rolling 12 month EBIT Interest Cover ratio.
Cyclical Risk	Qualitative assessment of the 2 year outlook for a stock/industry's profit cycle.
Industry Quality	Qualitative assessment of an industry's growth/returns potential and company specific management capability.
Financial Transparency	If we don't understand it, we won't recommend it.

For stocks where Evans & Partners does not generate its own forecasts, Bloomberg consensus data is used. Analysts can introduce other factors when determining their recommendation, with any material factors stated in the written research where appropriate.



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