Southern Cross Equities

22 October 2008

Recommendation	Buy
Price	**$0.33**
Target (12 mths)	**$0.65**

Expected Return	
Capital growth	97%
Dividend yield	0%
Total expected return	**97%**

Company Data and Ratios	
Enterprise value	$90m
Market cap (undiluted)	$129m
Issued capital - ords	390.4m
Issued Warrants ($0.335)	34.5m
Free float	0%
12 month price range	$0.22-$1.42
GICS sector	Materials

Gold Price Valuation Matrix

LT gold price	Valuation
A$800/oz	$0.35
A$1000/oz	$0.61
A$1200/oz	$0.88
A$1400/oz	$1.14

Disclaimer and disclosures

This report must be read with the disclaimer and disclosures on page 4 that form part of it.

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Apex Minerals (AXM)

Capital raised and ready to produce

- First production this quarter
- Longer term growth capability
- Innovative $60m raising

Emerging WA gold producer

An innovative $60m funding package has given AXM the financial means to move into production and continue an active exploration program. Production of gold at Wiluna is due to commence from both underground and open pit this quarter at over 100koz pa at an average estimated cash cost of ~A$550/oz. AXM is one of just a few emerging Australian gold producers that investors can play with relative confidence. Buy maintained.

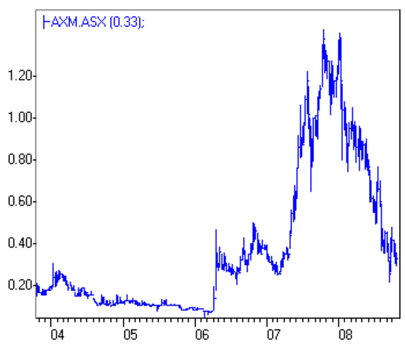
Success at Wiluna. Exploration success at Wiluna and the establishment of additional reserves has led to a greater focus on cost effective Wiluna ore for the initial phase of production. Drilling since May 08 has resulted in a significant upgrade to the overall Wiluna mineral resource by 400koz to 1.54moz at 6.0g/t. This means that the trucking of more expensive ore from Wilsons can be deferred until March 09.

$58.5m raising completed (with an additional $2m the subject of a shareholders meeting). AXM has successfully completed a major capital raising in extremely trying market conditions. The raising is in the form of a package of Senior Secured Notes at a coupon of 11.25% together with a detachable warrant and Gold Upside Participation Note (GUP Note). Goldman Sachs Group took most of the issue with the remainder going to institutional and sophisticated investors.

Now hedged. Part of the capital raised ($13.5m) has been used to purchase 155koz gold puts at A$952/oz while another 75koz has been sold forward over three years at A$1,140/oz. AXM now has a well structured hedge book covering 63% of estimated production of up to 120koz pa that still leaves earnings leveraged to the gold price while protecting some of the downside with puts.

NPV of $0.65 is the new target. We expect the price to move up over the next 12 months as risks associated with start up, production levels and costs are reduced. Previous targets of up to $1.70 reflected market multiples that were appropriate at the time. As a gold producer, AXM is a relatively high risk stock given the variability associated with geology, mining, gold price, the AUD and other industry factors.

Absolute price



Source: Iress

Earnings Forecasts

Year end June 30	2008a	2009f	2010f	2011f
NPAT (reported) (A$m)	-60.4	6.1	39.9	39.2
NPAT (adjusted) (A$m)	-60.4	6.1	39.9	39.2
EPS (adjusted) (cps)	-15.2	1.5	10.0	9.9
EPS growth (%)	na	na	557.4	-1.6
PER (x)	na	21.6	3.3	3.3
P/CFPS (x)	na	4.4	1.8	1.7
EV/EBITDA (x)	na	na	1.9	1.2
Dividend (¢ps)	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	0.0	4.5	18.7	13.5

Source: SCEQ estimates

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Production planned for November

Production remains scheduled for November 2008 when the Wiluna plant upgrade is completed having been designated to recommence the treatment of high grade Wiluna ore. As a result of the ongoing exploration success, the plant is likely to be kept full from Wiluna ore well into 2009. This should enable the introduction of the higher cost Wilsons ore at Gidgie to be deferred at least until the March quarter 2009.

The company is continuing to work on expanding resources and reserves at Wiluna through ongoing extensional and infill drilling of the Baldric, Crispin and Calvert zones. At Wilsons, drilling targets are the Premium and Cascade zones. This should result in further resource upgrades over the coming months.

Issue funds are planned to be used for remaining pre-production capex of $12.0m, exploration and evaluation $30m and purchase of puts $13.5m (completed).

Capital package minimises dilution

Warrants. The Warrants issued under the capital package entitle the holder to subscribe to 43.5m shares, exercisable at any time until expiry on 29 September 2013 (5 years). The exercise price has been set at 33.5¢ initially but may be reset under a formula related to the share price, but will not fall below 23.5¢. The difference between the two exercise prices has minimal impact in dollar terms ($4.3m) on exercise, hence minimum dilution in value to existing shareholders.

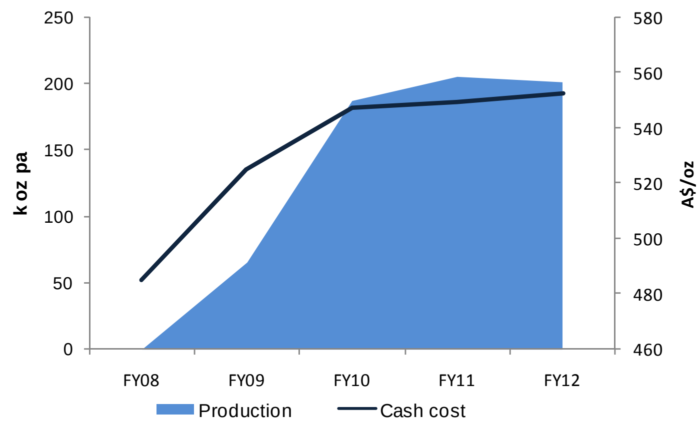
GUP Notes. The GUP notes are similar in effect to a royalty on production from the company's point of view, and while they take some of the gold price upside away, a high degree of sensitivity remains. The GUP Notes work like this: holders receive a quarterly payment calculated as 30% of the gold price premium above a designated floor price, multiplied by a predetermined 'Principal' amount equating to 500koz over the period to end 1H12. The floor price has been set at A$1,110.43/oz but can be reset to the gold price as at 1 January 2009 but not lower than A$900. This compares with this year's spot price range of A$905 – 1,350/oz.

Sensitivity to gold remains high

AXM's hedging and GUP Notes are structured in such a way that there is a high level of earnings sensitivity to the gold price. At a gold price of A$1000/oz for example we estimate an EPS in FY10 of 8.8¢ps and at A$1200/oz (+20%) an EPS of 13.0cps (+50%). Similarly, the NPVs at these gold prices are $0.61 and $0.88 (+44%) respectively.

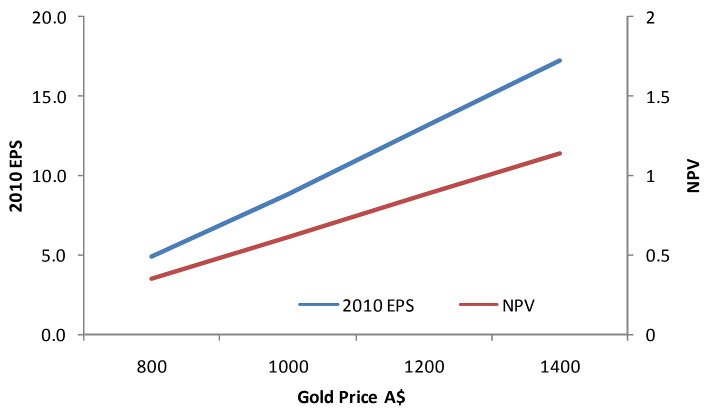
These estimates, like our base case NPV of $0.65, assume a GUP floor of A$900 and warrant exercise of 23.5¢ps. At a GUP floor of A$1,110.43 and 33.5¢ps warrant exercise, the NPV becomes $0.69.

Figure 1 – AXM Production Profile



Source: Southern Cross Equities, AXM

Figure 2 – Earnings/Valuation Sensitivity



Source: Southern Cross Equities estimates

Apex Minerals NL (AXM)

As at	22-Oct-08			
		Share price: A$	**$**	**0.33**
		Market Cap: A$	**$**	**129**

PROFIT AND LOSS (A$)

Y/e Jun 30	2007a	2008a	2009f	2010f	2011f
Sales revenue	0	1	70	194	209
EBITDA	-6	-59	16	74	76
D&A	0	-1	-7	-19	-21
Other	0	0	0	0	0
EBIT	-6	-60	10	55	55
Other income (expenses)	0	0	0	0	0
Net Interest Expense	1	2	-1	-5	-3
Pre-tax profit	-6	-60	9	50	52
Tax	0	0	-3	-10	-13
Net Profit	-6	-60	6	40	39
Adjustments	0	0	0	0	0
SCEQ adj profit	-6	-60	6	40	39
One-off items	0	0	0	0	0
Reported net profit	-6	-60	6	40	39

CASHFLOW (A$)

Y/e Jun 30	2007a	2008f	2009f	2010f	2011f
Receipts from customers	0	1	70	194	209
Payments to suppliers	-4	0	-36	-104	-115
Net interest	0	1	-1	-5	-3
Tax paid	0	0	-3	-10	-13
Other	0	0	0	0	0
Operating cashflow	-4	2	30	75	78
Capex	0	-33	-75	-25	-14
Investments	0	0	0	0	0
Asset sales	0	0	0	0	0
Other	-1	-53	-30	-22	-18
Investing cashflow	-1	-86	-105	-47	-32
Change in borrowings	-1	-1	61	0	0
Equity raised	12	110	0	0	0
Dividends paid	0	0	0	0	0
Other	0	0	0	0	0
Financing cashflow	11	109	61	0	0
Net change in cash	6	25	-14	28	46
Cash at end of period	13	39	24	52	98

BALANCE SHEET (A$)

Y/e Jun 30	2007a	2008f	2009f	2010f	2011f
Cash	13	39	25	52	98
Receivables	0	2	3	10	10
Inventories	0	2	6	16	17
Investments	0	0	0	0	0
Other	13	44	34	77	125
Current assets					
PPE	0	95	170	195	209
Investments	0	0	0	0	0
Intangibles	0	0	30	52	70
Other	3	2	2	2	2
Non-current assets	3	97	202	249	281
Total assets	16	141	235	326	406
Payables	2	12	7	19	21
Debt	0	0	61	61	61
Provisions	0	30	30	30	30
Other	0	3	3	3	3
Total liabilities	3	46	101	113	115
Shareholders' equity	14	95	135	213	291
Minorities	0	0	0	0	0
Total shareholders funds	14	95	135	213	291
Total funds employed	1	56	171	221	254
W/A diluted shares on issue	182	397	397	397	397

VALUATION DATA (A$)

Y/e Jun 30	2007a	2008f	2009f	2010f	2011f
Net profit adj ($m)	-6	-60	6	40	39
EPS (c)	-3	-15.2	1.5	10.0	9.9
EPS growth (%)	na	na	na	557	-2
P/E ratio (x)	na	na	21.6	3.3	3.3
CFPS (c)	na	na	8	19	20
Price/CF (x)	na	na	4.4	1.8	1.7
DPS (c)	0	0	0	0	0
Yield (%)	0	0	0	0	0
Franking (%)	0	0	0	0	0
EV/EBITDA	na	na	na	1.9	1.2
EBITDA margin (%)	na	na	na	38	36
Valuation per share:					**0.65**
Target price (12 mth):					**0.65**
Total Return (including yield)					**97%**

PROFITABILITY RATIOS

Y/e Jun 30	2007a	2008f	2009f	2010f	2011f
EBITDA/sales (%)			23	38	36
EBIT/sales (%)			14	28	27
Return on assets (%)			3	12	10
Return on equity (%)			5	19	13
Return on funds empl'd (%)			4	18	15
Dividend cover (x)			0	0	0
Effective tax rate (%)			30	20	25

LIQUIDITY AND LEVERAGE

Y/e Jun 30	2007a	2008f	2009f	2010f	2011f
Net debt/(cash) ($m)	-13	-39	36	8	-37
Net debt/equity (%)	-95	-41	27	4	-13
Net interest cover (x)			-11	-10	-18
Current ratio (x)			3	3	5
Inventory turnover			7	7	7
Inventory/sales			0	8	8

INTERIMS (A$)

Y/e Jun 30 ($m)	2007a	2008f	2009f	2010f	2011f
Sales revenue		0	-1	94	107
EBITDA		-28	-11	38	39
D&A		0	0	-9	-10
Other		0	0	0	0
EBIT		-28	-11	29	28
Other income (expense)		0	0	0	0
Net interest		1	1	-3	-2
Pre tax profit		-28	-10	26	26
Tax		0	3	-5	-5
Net Profit		-28	-7	21	21
Adjustments		0	0	0	0
SCEQ adj profit		-28	-7	21	21
One-off items		0	0	0	0
Reported net profit		-28	-7	21	21

Production (koz)

Y/e Jun 30	2007a	2008f	2009f	2010f	2011f
Wiluna/Gidgee/Youanmi			66	187	205
Aphrodite			0	0	0
Total			66	187	205

Cash Cost (A$oz)

Y/e Jun 30	2007a	2008f	2009f	2010f	2011f
Wiluna	0	0	525	545	551
Gidgee			0	562	561
Youanmi				540	540
Aphrodite				0	0
				547	550

ASSUMPTIONS

Y/e Jun 30	2007a	2008f	2009f	2010f	2011f
Gold Price (US$/oz)	638	823	850	825	800
A$	0.79	0.89	0.76	0.78	0.77
Gold Price (A$/oz)	811	920	1126	1058	1039

Recommendation structure

Buy:	Expect >15% total return on a 12-month view
Speculative Buy:	Expect >30% total return on a 12-month view but carries significantly higher risk than its sector
Fair Value:	Expect total return between –15% and +15% on a 12-month view
Sell:	Expect <-15% total return on a 12-month view

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Disclosure of Interest

Southern Cross Equities Ltd and its associates hold 7,376,577 shares and 1,500,000 options in Apex Minerals (AXM) as at the date of this report. This position is subject to change without notice.