

High grade drilling results returned

Exploration update

- CJO released the assay results of the latest 11 holes at its Namiquipa silver project in Mexico. All holes intersected silver-lead-zinc mineralisation with several holes encountering high grade silver zones. The latest results confirm the depth and strike extensions of the Princessa and America vein systems and have identified additional parallel mineralised zones. We retain our BUY recommendation with a price target of \$0.29/share**
- High grade results at Namiquipa.** CJO reported outstanding drilling results from its 100% owned Namiquipa silver project in Mexico. The assay results of 11 new holes were reported with notable grades of 16m @ 834g/t Ag, 7.5m @ 576g/t Ag and 13m @ 151g/t Ag. For comparison purposes in gold equivalent this equates to grades of 16g/t Au, 11g/t Au and 3g/t Au respectively (gold is currently 52x the silver price per ounce).
- Drilling verifies depth extensions.** The majority of the drilling was to test for the depth extension of the silver mineralisation below old underground workings, which have been mined to an average of 150m depth. Multiple high grade veins have been encountered below the workings, with the deepest intersection of 1m @ 957g/t encountered at 456m down hole. Drilling of 39 holes for 14,000m has been completed, with a further 6,000m still to drill in the initial 2-rig drilling program. Assays are pending on 25 holes.
- Additional ore zones identified.** The latest round of drilling has identified an area of high grade Ag-Pb-Zn as a new vein structure named the Megan vein. The Megan vein runs semi-parallel to the Princessa vein and the Mexico veins and has returned some of the best assays to date, including 16m @ 834g/t Ag and 13m @ 151g/t Ag. Of particular significance is hole NAM-018 which returned assays of 15m @ 146g/t Ag and more importantly confirmed the mineralised strike extension of the Princessa vein to over 1,200m.
- Field work to commence at Espiritu.** Trenching and sampling work is due to begin at CJO's recently acquired Espiritu project within the next few weeks. The initial field work will be used to generate drill targets by year end.

26 October 2011

12mth Rating		BUY
Price	A\$	0.16
Target Price	A\$	0.29
12m Total Return	%	80.0

RIC: CJO.AX	BBG: CJO AU
Shares o/s	m 814.9
Free Float	% 99.9
Market Cap.	A\$m 130.4
Net Debt (Cash)	A\$m -18.7
Net Debt/Equity	% na
3m Av. D. T'over	A\$m 0.31
52wk High/Low	A\$ 0.35/0.12
2yr adj. beta	1.07

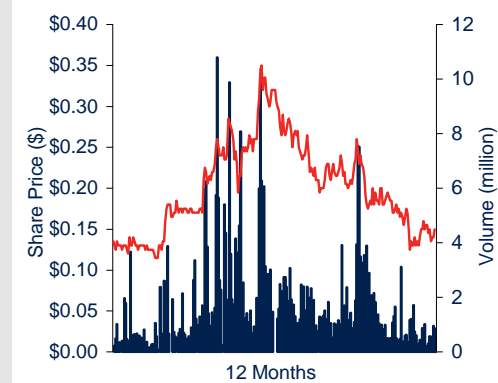
Valuation:

Methodology		DCF
Value per share	A\$	0.36

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Disclosure: Patersons Securities acted as lead manager to placement of 89.3m CJO shares at A\$0.20/sh to raise A\$17.9m in February 2011. It received fees for this service.

12 Month Share Price Performance



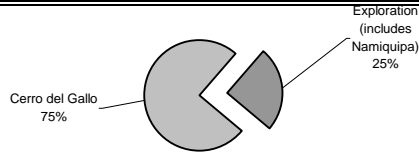
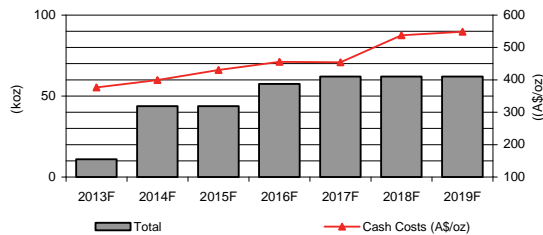
Performance %	1mth	3mth	12mth
Absolute	-17.6	-37.8	7.7
Rel. S&P/ASX 300	-11.1	-24.3	27.2

Year End June 30	2011A	2012F	2013F	2014F	2015F
Reported NPAT (\$m)	(5.9)	(4.6)	11.2	54.6	52.2
Recurrent NPAT (\$m)	(5.9)	(4.6)	11.2	54.6	52.2
Recurrent EPS (cents)	(0.8)	(0.6)	1.4	6.7	6.4
EPS Growth (%)	na	na	na	386.7	(4.4)
PER (x)	(20.4)	(28.6)	11.6	2.4	2.5
EBITDA (\$m)	(5.9)	(4.6)	13.1	62.1	63.8
EV/EBITDA (x)	(17.2)	(28.2)	12.6	1.7	1.2
Capex (\$m)	0.0	26.4	41.6	0.0	26.4
Free Cashflow	(5.6)	(36.6)	(37.2)	57.1	31.2
FCFPS (cents)	(0.8)	(4.5)	(4.6)	7.0	3.8
PFCF (x)	(21.2)	(3.6)	(3.5)	2.3	4.2
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	100.0	100.0	100.0	100.0	100.0

Cerro Resources NL (CJO)

Valuation	A\$m	\$0.16 A\$/sh
Cerro del Gallo	198.7	0.24
Exploration (includes Namiquipa)	65.0	0.08
Unpaid capital	21.2	0.03
Corporate	(12.0)	(0.01)
Forwards	0.0	0.00
Investments	1.7	0.00
Cash	18.7	0.02
Debt	0.0	0.00
NPV	293.3	0.36
(@ 8% discount rate)		
Price Target		0.29
(0.8x NPV)		
NPV Sensitivity		
NPV(nom) @ 5% disc.		0.43
NPV(nom) @ 0% disc.		0.60

Hedging	koz	1-Year	3-years	% Reserve
Committed Production	0	0	0	0%

Valuation Summary of Operating Assets**Gold Production Summary****Reserves & Resources**

	Mt	Au g/t	Ag g/t	Au koz	Au koz (eq)*
Reserves					
Cerro del Gallo	32.2	0.7	14.8	712	1,010
Total	32.2	0.7	14.8	712	1,010
Resources					
Cerro del Gallo	627.0	0.2	10.0	4,637	8,563
Total	627.0	0.2	10.0	4,637	8,563

* Au Eq. based on Au price US\$1500/oz, Ag price US\$29/oz.

Directors

Name	Position
Norman Seckold	Non-Executive Chairman
James Crombie	Executive Vice-Chairman
Anthony McDonald	Managing Director
Craig J McPherson	CFO and Alt. Director
Richard Keevers	Non-Executive Director
Robert Bell	Non-Executive Director
John Cook	Non-Executive Director
Nick Tintor	Non-Executive Director

Substantial Shareholders

	%
Norman Seckold	8.4%
OCJ Investments	5.7%

Year End June 30

Commodity Assumptions	2011A	2012F	2013F	2014F	2015F
AS:US\$	0.99	1.02	1.00	0.98	0.95
Gold (US\$/oz)	1369	1771	1787	1812	1842
Silver (US\$/lb)	28.71	37.79	37.53	37.10	36.74
Gold (A\$/oz)	1387	1732	1787	1858	1950
Target Price Sensitivity	-10%	0%	+10%	Change	
FX (A\$:US\$)	0.30	0.29	0.30	1%	
Gold Price	0.24	0.29	0.35	19%	
Silver Price	0.29	0.29	0.30	3%	
Operating costs	0.31	0.30	0.28	-5%	

EV: Reserve (A\$/oz)

EV: Resource (A\$/oz)

Production Summary	2011A	2012F	2013F	2014F	2015F
Production (koz)					
Cerro del Gallo	0	0	11	44	44
Total	0	0	11	44	44

Cost Summary

Cash Costs (A\$/oz)	na	na	377	399	430
Total Costs (A\$/oz)	na	na	549	575	606

Profit & Loss (A\$m)	2011A	2012F	2013F	2014F	2015F
Sales Revenue	0.0	0.0	23.2	93.7	95.4
Other Income	0.6	0.9	1.9	1.9	2.8
Operating Costs	0.0	0.0	7.7	31.1	31.7
Exploration Exp.	1.7	3.6	2.5	0.5	0.8
Corporate/Admin	4.7	1.8	1.9	1.9	1.9
EBITDA	(5.9)	(4.6)	13.1	62.1	63.8
Depn & Amort	0.0	0.0	1.9	7.5	7.3
EBIT	(5.9)	(4.6)	11.2	54.6	56.5
Interest	0.0	0.0	0.0	0.0	0.0
Operating Profit	(5.9)	(4.6)	11.2	54.6	56.5
Tax expense	0.0	0.0	0.0	0.0	4.3
FX Adjustment	0.0	0.0	0.0	0.0	0.0
Abnormals					
NPAT	(5.9)	(4.6)	11.2	54.6	52.2
Normalised NPAT	(5.9)	(4.6)	11.2	54.6	52.2

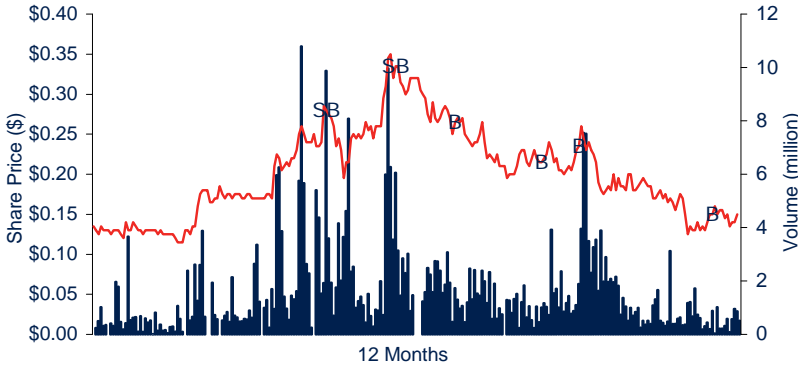
Cash Flow (A\$m)	2011A	2012F	2013F	2014F	2015F
Adjusted Net Profit	(5.9)	(4.6)	11.2	54.6	52.2
+ Interest/Tax/Expl Exp	1.7	3.6	2.5	0.5	5.1
- Interest/Tax/Expl Inc	4.1	9.3	11.4	5.6	7.0
+ Depn/Amort	0.0	0.0	1.9	7.5	7.3
+/- Other	0.0	0.0	0.0	0.0	0.0
Operating Cashflow	(8.3)	(10.2)	4.2	57.1	57.6
- Capex (+asset sales)	0.0	26.4	41.6	0.0	26.4
- Working Capital Increase	(2.6)	0.0	0.0	0.0	0.0
Free Cashflow	(5.6)	(36.6)	(37.4)	57.1	31.2
- Dividends (ords & pref)	0.0	0.0	0.0	0.0	0.0
+ Equity raised	20.5	20.0	0.0	0.0	0.0
+ Debt drawdown (repaid)	0.0	60.0	0.0	(30.0)	(30.0)
Net Change in Cash	14.4	43.4	(37.4)	27.1	1.2
Cash at End Period	18.7	62.0	24.7	51.7	52.9
Net Cash/(LT Debt)	18.7	2.0	(35.3)	21.7	52.9

Balance Sheet (A\$m)	2011A	2012F	2013F	2014F	2015F
Cash	18.7	62.0	24.7	51.7	52.9
Total Assets	58.7	134.1	145.4	170.0	191.5
Total Debt	0.0	60.0	60.0	30.0	0.0
Total Liabilities	1.2	61.2	61.2	31.2	0.5
Shareholders Funds	57.5	72.9	84.1	138.8	191.0

Ratios

Net Debt/Equity (%)	na	na	42.0	na	na
Interest Cover (x)	na	na	na	na	na
Return on Equity (%)	na	na	13.3	39.4	27.3

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
04 Mar 11	Research Note	Na	0.28	SB	
13 Apr 11	Research Note	na	0.34	SB	21.4%
17 May 11	Resources Review	0.47	0.28	B	-17.6%
05 Jul 11	Event Impact Email	0.36	0.22	B	-21.4%
26 Jul 11	Event Impact Email	0.37	0.23	B	4.5%
10 Oct 11	Patersons Gold Book	0.29	0.14	B	-39.1%
	Current Share Price		0.15		7.1%

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