SMALL-CAP EQUITY RESEARCH

FOSTER STOCKBROKING

Level 21
25 Bligh St
Sydney NSW 2000

Panoramic Resources Ltd. (PAN.ASX)

Initiation of coverage – a solid, safe nickel miner

Thursday 18 December 2008

Introduction. PAN is an emerging nickel sulphide miner that produced 13,057 tonnes of nickel in concentrate/ore in FY08 from its two Western Australian operations. In FY08 PAN made a $53.3m net profit after tax, paid a dividend of 12c per share and was admitted to the ASX/S&P 200 Index.

Investment view. While the nickel price has retreated significantly in CY08, we believe PAN has been oversold and represents a significant buying opportunity with limited downside. At the end of December 2008, we estimate PAN will have around $65m cash in the bank and a hedge book that is in the money by more than $70m, depending on nickel prices and the AUD/USD exchange rate. The company is ramping up production in FY09 at existing operations to produce around 16 -17kt of contained nickel in concentrate and ore (equity share).

Consolidation opportunities. While mine lives based on current reserves are approximately 4 and 6 years at Savannah and Lanfranchi respectively, **PAN added more than 100kt of contained nickel to the resource base over the last two years** and we anticipate significantly upgraded reserves early in CY09 at both PAN's operations. The likely extension of mine lives beyond ten years at each operation will undoubtedly increase the appetite a potential suitor may have in PAN.

Nickel market outlook. The short term outlook for the nickel market looks weak as stocks are high and the global steel industry is experiencing significant cutbacks in production. However, at current nickel prices, nickel mine production is being shutdown at a considerable rate. Given the vast majority of the world's nickel resources are the more costly nickel laterites, it is extremely difficult to see any further investment in nickel production without higher prices over the medium term.

Valuation: Our current valuation for PAN based on a DCF methodology is $1.74/share and our year-forward valuation is $1.70/share.

Recommendation. We initiate coverage on PAN with a **BUY** recommendation. We have set our price target at $1.70/share, reflecting our one-year forward valuation. There is currently 100% upside to our price target. **We are attracted to the strong balance sheet, sound management and near term upside potential to extend mine lives.**

Year to June ($m)	2008a	2009e	2010e	2011e	2012e
Revenue	232.4	199.7	210.9	210.9	210.9
% change	-22%	-14%	6%	0%	0%
EBITDA	111.8	81.2	79.2	71.4	66.7
EBITDA margin	48%	41%	38%	34%	32%
NPAT rep	53.3	24.1	29.6	26.3	25.1
NPAT adj	53.3	30.1	29.6	26.3	25.1
EPS adj (c)	28.4	15.6	15.3	13.6	13.0
% change	-40%	-45%	-2%	-11%	-5%
Dividend (c)	12.0	5.0	6.1	5.4	5.2
PER (x)	3.0	5.4	5.5	6.2	6.5
EV/EBITDA (x)	0.5	1.0	0.5	nm	nm
Yield (%)	14.3%	5.9%	7.3%	6.5%	6.2%

Figures adjusted for NRIs and amortisation of intangibles

Source: Company, Foster Stockbroking

Resources

Rating:	BUY
(previous):	n/a

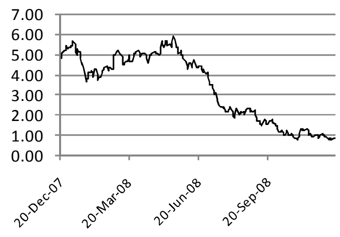
Michael Evans
Michael.Evans@fostock.com.au
+612 9993 8163

Share price:	0.84
Price target:	$1.70
(Previous)	na
NPV per share:	$1.74
Risk:	Medium
Shares on issue (m):	192.0
Shares on issue (diluted) (m):	193.7
Free float:	100%
Average daily volume:	1,305,726
Market cap ($m):	161.2
FY09e Enterprise value ($m):	81.5
FY09e Net debt ($m):	-79.7
FY09e Gearing (ND/ND+E):	nm
FY09e S'holders equity ($m):	246.2
FY09e NTA per share ($):	1.28

Forecast:	2009e
Free cash flow ($m):	-10.5
Return on average equity:	10.4%
Net interest cover:	nm

Forecast:	2010e
Free cash flow ($m):	62.2
Return on average equity:	12.0%
Net interest cover:	nm

Share price ($):



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BACKGROUND AND INTRODUCTION

Panoramic Resources Ltd is an established Western Australian nickel sulphide producer operating two mines. The 100% owned **Savannah Project** is located in The Kimberley and produced 7,579 tonnes of nickel in concentrate in FY08 plus significant copper and cobalt. The 75% owned **Lanfranchi Project** south of Kambalda, produced 7,178 (100%) tonnes of nickel in ore in FY08. The company listed on the ASX in September 2001 with a market capitalisation of $8m. Panoramic now employs over 600 people, is an ASX Top 200 Company with no debt and a growing resource base and production profile.

PAN – Location of nickel projects

Source: Company

Savannah (PAN – 100%)
Savannah (formerly Sally Malay) is now an underground operation located in the far north-east of WA and produced 96kt of concentrate in FY08 containing 7.6kt of nickel, 4.1kt of copper and 409t of cobalt. Cash costs for Savannah in FY08 were A$5.55/lb of payable nickel. The concentrate is exported to a Jinchuan Group smelter in China as part of an off-take agreement that ends in 2010, at which stage, the contract will be up for renewal.

The process plant has a nominal capacity of 1,000ktpa and only processed 689kt in FY08 and 731kt in FY07. The process has been somewhat constrained by production rates from the underground mine. Mining at Copernicus open cut (PAN – 60%) commenced in 1QFY09 but PAN announced on 18 November 2008 that it would suspend operations at Copernicus citing weaker nickel prices. Copernicus was only ever designed to make a relatively small contribution to the group and go some way to filling the excess capacity at the Savannah mill.

Significant exploration work at Savannah has increased resources from 36,800t of nickel at June 2007 to 70,300t of nickel at June 2008. At current mining rates, there are enough resources for about five years of mining. However, we note **historical resources of up to another 80kt of nickel will more than likely prolong the mine life beyond ten years**.

Lanfranchi (PAN – 75%)
Lanfranchi operations are based 42km south of Kambalda. Ore from the mine is trucked to BHP's Kambalda concentrator and smelter, where it is sold and toll treated. Cash costs for Lanfranchi in FY08 were A$3.34/lb of payable nickel. The ore is concentrated and smelted by BHP's Nickel West in Kambalda. PAN is effectively paid for a little less than 60% of the contained nickel value in the ore. In FY08, Lanfranchi operations produced 7.3kt of nickel in ore (100% basis) from 286kt of ore, up 40% from FY07.

In FY09, nickel production is expected to increase as operations are ramped up at the newly discovered Deacon orebody. We expect mining rates to increase in FY09 to more than 450kt of ore containing around 12.5kt of nickel. Current reserves at Lanfranchi are 61kt of nickel, allowing mining for six years at the increased production rate. We note current resources of more than 120kt of nickel and the likelihood of further increases in resources will result in a mine life beyond ten years.

Deacon resources are 1.9mt @ 3% nickel for 58kt of contained nickel. At Lanfranchi, the resource extends up and down dip and recent drilling results, which include 92.7m at 2.24% Ni and 72.2m @ 2.95% Ni, are encouraging. The company is targeting an extra 2.5mt at Lanfranchi @ 3% Ni for 80,000t of contained Ni.

BUSINESS STRATEGY

According to the company, the ten year plan is to:

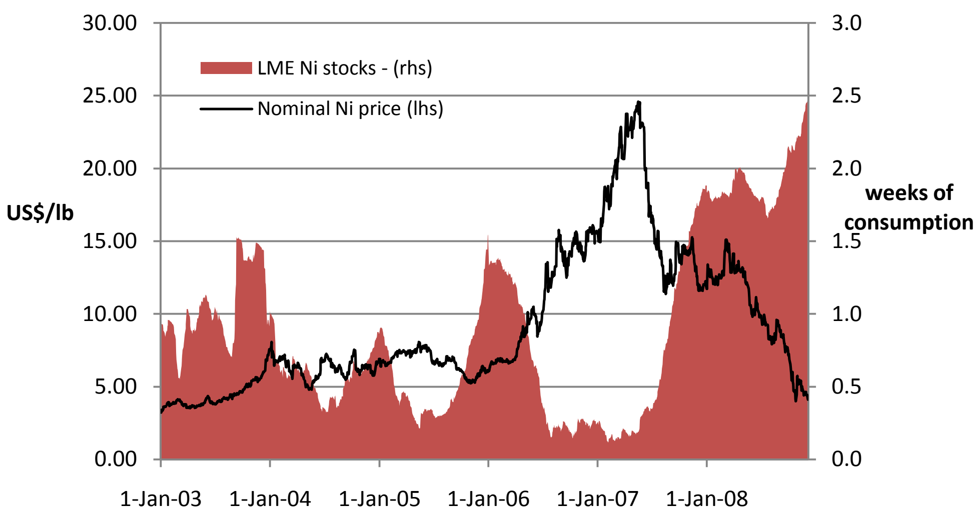
- Improve the safety performance to better than the industry average;
- Increase production to an annual rate of at least 20,000 tonnes contained nickel;
- Grow the existing resource and reserve base to extend the mine life of both operations;
- Acquire additional assets to become a diversified mining house; &
- Maintain a steady dividend stream and ultimately become an ASX Top 100 Company.

NICKEL MARKETS

Nickel consumption growth easing
Nickel, like its base metal cousins, is largely consumed in construction and manufacturing, whether it is public infrastructure, industrial or residential. It is estimated that 65% of nickel is used in stainless steel production and therefore developments in stainless steel markets have significant effects on world nickel economics. ABARE estimate that high nickel prices in 2007 led to a reduction in stainless steel production as steel producers substituted higher grade stainless steel with that of lower grade, containing less nickel as a percentage. However, as nickel prices eased from highs of close to US$25/lb to less than US$15/lb in the second half of 2007, ABARE expected this demand to largely resume. However, since then slowing global economic growth and much lower than anticipated steel production in 2HCY08 has seen nickel prices slip to less than US$5/lb.

The stainless steel product that consumes the most nickel is predominantly used in manufacturing and industrial applications including food preparation equipment, oil refining, power generation and petrochemicals production. Given the rapid urbanisation and industrialisation of China and India, the demand for stainless steel in these areas should remain strong over the medium term despite China's easing growth rate.

LME Nickel prices and LME stock piles - 1 January 2003 to 4 Dec 2008



Source: Iress, CRU

While nickel metal stocks have been on the rise recently, we believe the market will begin to tighten in CY09 as planned nickel projects are placed on hold as they are deemed uneconomic at current nickel prices and de-stocking, due to lower forecast steel production, ends. Despite an expected surplus in nickel markets in the short term, current nickel prices are not deemed adequate to justify further investment, especially considering the vast majority of the worlds nickel resources are in the more expensive laterites. Thus, we envisage stronger nickel prices over the medium term.

Lower prices driven largely by an expected slowdown in demand have had significant effects on easing supply.

In March 2008, ABARE estimated global nickel consumption to increase by 8.4% in 2008 to 1,470kt. In its September edition of Australian Commodities, ABARE's revised forecast for 2008 nickel consumption was 1,354kt or only 2.3% annual growth. The lower demand largely results from the rapid easing of Chinese growth prospects and associated nickel de-stocking.

In our view current nickel prices are unsustainable as around 20% - 30% of world production is uneconomic at prices less than US$5.00/lb. This has already led to supply cutbacks at a number of mines.

- On 24 November, **Norilsk Nickel announced it had decided to put its Western Australian based Waterloo and Silver Swan mines on care and maintenance**. Combined, the two mines produced approximately **10,000 tonnes** of contained nickel per annum. This follows an announcement in October by Norilsk confirming it will cease production at its Cawse lateritic mine in Western Australia due to cost pressures and lower prices.

- On 4 December, **Xstrata announced its Dominican based Falcondo operations**, which temporarily suspended operations in August 2008 and was designed to produce **29,000 tonnes** of nickel contained in ferronickel, **will remain on care and maintenance**.

- Also on 4 December, **Vale announced it will close indefinitely a mine in Canada that produces 8,000 tonnes of nickel** annually.

- Canada's First Nickel announced in October that it has suspended output at its Lockerby mine citing low nickel prices and a challenging financial environment.

- On 10 December, TSX listed **TNX mining announced it would extend the suspension at its Levack mine and also suspend operations at its McCreedy West mine**. Both mines accounted for about 9kt of nickel mined in ore per annum.

These cutbacks, announced in the space of the last two months, represent approximately 3.5% of global nickel mine production. **At current nickel prices, we estimate up to 30% of global nickel production is uneconomic and therefore we anticipate further closures and reduced output over the short term**. Further, low nickel prices are hindering development of undeveloped nickel mines and will delay expansions of existing mines, with lateritic nickel operations hurting the most.

- **MRE's Murrin Murrin operation shelved a 10kt per annum heap leach expansion program earlier in the year** and subsequently had to raise significant capital to ensure the ongoing viability of current operations.

- **Vale has announced slower ramp ups at both Goro and Onca Puma**. While first metal is not expected until April 2009 and July 2009 for Goro and Onca Puma respectively, it is now uncertain when their ultimate capacities will be reached. Onca Puma was ramping up from 17.5kt of nickel in 2009 to 57kt in 2012 prior to announcing slower ramp ups.

Supply will contract much quicker than anticipated. When base metal prices oscillate in a small band, the profits and losses of operations may not vary materially. In a boom, cost control does not remain a priority as the marginal unit of production is worth the increased cost. While this is a correct strategy to pursue to increase production at increased costs, the flip side of this is, when prices decline significantly, mining operations start losing a lot of money. The result, we suspect, will mean supply will retract quicker than it has in the past.

We acknowledge that nickel prices could go lower in the short term, but feel confident that supply will retract faster than previously anticipated, creating a fundamental floor in the nickel price.

FSB forecast nickel prices

		FY09e	FY10e	LT
Nickel price	US$/lb	5.90	6.50	6.50
AUD/USD		0.70	0.75	0.75
Nickel price	A$/lb	8.42	8.67	8.67

Source: FSB research. Above prices are average spot nickel price assumptions and do not take into account PAN's hedging revenue.

OPERATIONS

In FY07, PAN produced 13,225 tonnes of nickel contained in ores and concentrates (100% basis), produced a record company profit of $88.1m and paid a maiden dividend of 12 cents per share. In FY08, lower nickel prices resulted in a reduced profit of $53.3m despite record nickel production of 14,833 tonnes (100% basis). While lower actual and forecast nickel prices will impact FY09 profit, we believe PAN's low cost structure and prudent hedging program will minimise the impact.

Resources and Reserves

At Savannah, reserves and resources are equivalent to approximately 4 and 6.5 years respectively of FY09 planned production rates of 740kt of ore per annum. However, resources at Savannah have increased significantly since mining began in 2004 and it is notable that the increase in mining reserves in FY08 more than replaced those reserves that were mined during the same year. Current mine plans at Savannah envisage mining to 2014 and **PAN has, what we consider to be realistic given results thus far, a target to increase resources to support mining to 2020.**

At Lanfranchi, reserves and resources are equivalent to approximately 6 and 18 years respectively of FY09 planned production rates of around 440kt of ore. Similarly to Savannah, resources at Lanfranchi have increased significantly since mining recommenced operations in 2005. For example, in 2006, the Lanfranchi JV discovered the Deacon orebody which has an Indicated and Inferred resource of 63,500 tonnes of nickel. Given the ongoing exploration and significant resources yet to be converted to reserves, **PAN believes mining will continue at Lanfranchi for at least the next 10 years.**

PAN – Resources and Reserves, 30 June 2008

	Ore	Ore grade				Contained metal	
	kt	Ni %	Cu %	Co %	Ni eq. %	Nickel	Nickel eq
Resources							
Savannah	4,740	1.48	0.72	0.08	1.89	70,152	89,695
Lanfranchi	8,042	1.97			1.97	158,289	158,289
Total	12,782					228,441	247,984
Reserves							
Savannah	2,926	1.29	0.62	0.07	1.65	37,745	48,234
Lanfranchi	2,740	2.42			2.42	66,328	66,328
Total	5,666					104,074	114,562

Note: Equivalent grades are calculated using @ $6.50/lb Ni, $1.50/lb Cu and $20/lb Co.
No account is taken for recoveries or payable amounts

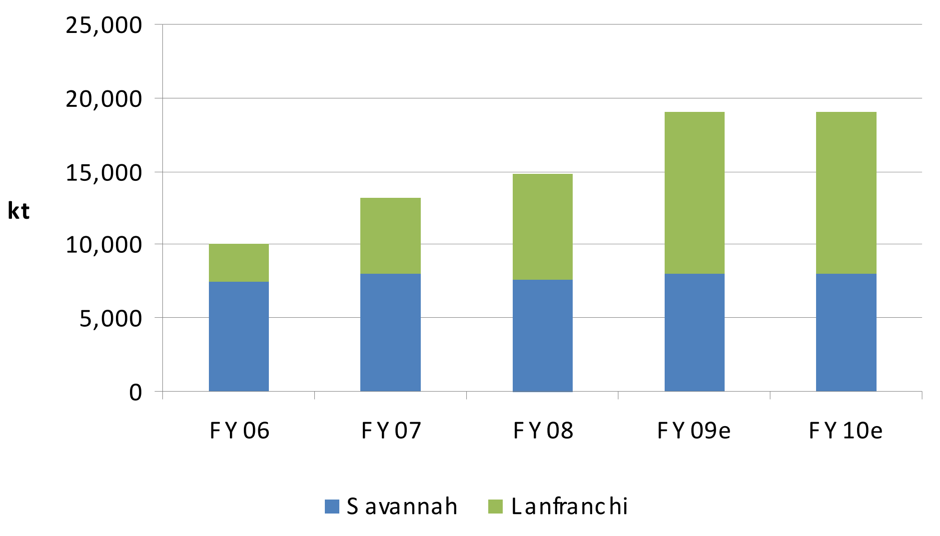
Source: Company, FSB research

Production and costs

As PAN sells its nickel in concentrate and ore for Savannah and Lanfranchi respectively, it only gets paid for a proportion of the ore in concentrate and ore. Historically, this has varied slightly, largely due to detailed contract provisions relating to commodity price variations and payable amounts. Historical production reports indicate that PAN gets paid for approximately 60% of the nickel contained in the ore at both Savannah and Lanfranchi.

For example, at Savannah, recoveries are around 87% and payable nickel is approximately 70%, resulting in PAN getting paid for approximately 61% of the nickel in the ore. At Lanfranchi, the nickel ore is sold directly to BHP's Nickel West business in Kambalda for concentrating and further processing. Other parties selling ore to Nickel West include Independence Group (IGO) and Mincor Resources (MCR). Historical figures suggest PAN gets paid for approximately 58% of the nickel contained in the ore.

PAN – Actual and forecast production – Nickel contained in con./ore (100%)

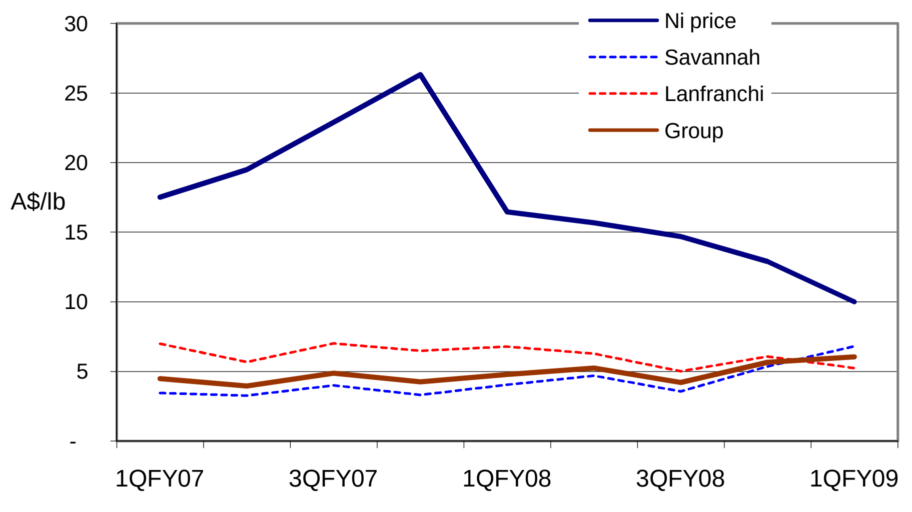


Source: Company

PAN's reported group cash cost in FY08 was A$5.91/lb (US$5.27/lb) of payable nickel, up from A$5.19/lb in FY07.

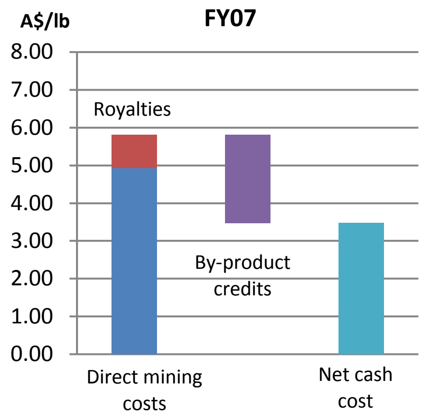
PAN produced nickel at A$6.06/lb of payable nickel in 1QFY09. Over the last 12 months up until 1QFY09, cash costs have slightly increased, partially due to grade variances, but mainly due to industry wide cost pressures including labour, fuel related costs and other mining input costs, including steel based consumables. However, a sharp decline in global economic activity and associated falls in metal prices has significantly and rapidly reversed this trend. Oil prices have come off their highs dramatically, steel prices have fallen and, in our view, mine closures will lead to reduced cost pressures for labour at all levels in the mining industry. While it is unlikely we will see the results of reduced costs in 1HFY09, we do expect lower input costs at PAN's operations in 2HFY09 as cost pressures come off and higher throughputs achieve some economies of scale. However, falling copper and cobalt prices will lead to reduced by-product credits for PAN which are treated as a reduction in cash costs.

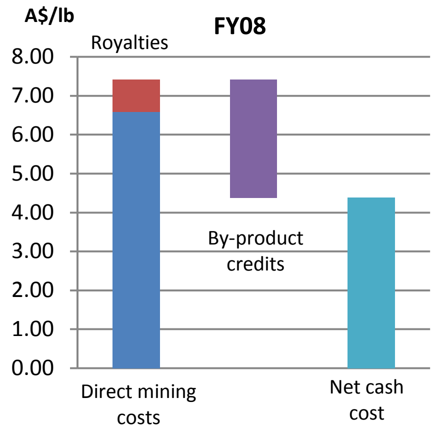
PAN – Historical Group quarterly cash costs per pound of payable nickel



Source: Company

PAN – Savannah cash cost per payable pound of nickel breakdown





Source: Company, FSB research

The graphs above show the significant impact copper and cobalt credits have on reducing the net cash cost at Savannah. Combined copper and cobalt credits resulted in reducing cash costs by A$2.33/lb and $3.02/lb in FY07 and FY08 respectively. However, using lower copper and cobalt prices in FY09, we expect by product credits to reduce to around FY07 levels or around A$2.30/lb. In 1QFY09 the net cash cost increased to A$6.79/lb of payable nickel. However, this was largely due to lower than expected mine life grades and **we estimate the average cash cost at Savannah will be around A$5.20/lb or US$3.85/lb of payable nickel in FY09**.

Similarly at Lanfranchi, there is a small amount of credit for copper contained in the ore, but metal credits at Lanfranchi historically have only been around A$0.20/lb as opposed to A$2.00 – A$3.00/lb at Savannah. In 1QFY09, cash costs at Lanfranchi were A$5.23/lb of payable nickel, significantly lower than the average over the previous eight quarters. Despite the nickel grade mined being unusually high in 1QFY09, **we estimate the average cash cost at Lanfranchi will be around A$5.50/lb or US$3.90/lb of payable nickel in FY09.**

On a group weighted balance, we estimate cash costs will be around A$5.30/lb or US$4.00/lb of payable nickel in FY09. Given our forecast nickel price of A$8.00/lb in FY09 and our group payable production estimate of 22Mlb, the operations should generate a margin of up to $60m in FY09 before hedging. Whether the group is ultimately cash positive in FY09 will depend on capital expenditure, exploration expenditure and corporate overheads.

The ultimate cash cost at Savannah is largely affected by by-product credits. Using copper and cobalt prices of US$2.00/lb and US$25.00/lb respectively, we estimate by-product credits for Savannah ore to be around A$2.00/lb of payable nickel.

Capital expenditure in FY07 and FY08 was $32m and $56m respectively where as exploration expenses were $7m and $6m. Capital expenditure in 1QFY09 was $13.7m on key non-recurring capital investments including mobile equipment, a ventilation upgrade at Lanfranchi and $4m development at Copernicus.

We expect capital expenditure in 2HFY09 to be significantly less than 1HFY09, but total capital expenditure to total $55m in FY09 including development expenditure at Copernicus which we expect to be written off in the current half. Over the following years we expect capital expenditure will reduce to a sustaining level of around $15m - $20m per year. This is in line with company comments and we note mine development will slow down as previously development of stoping areas was kept a few years ahead of actual mining.

EARNINGS ESTIMATE

While we expect the operations to be cash positive in 1HFY09, corporate overheads, a relatively high depreciation charge and capital expenditure write-downs at Copernicus (we estimate $6m) lead us to believe that PAN will make a small loss in 1HFY09 before hedging benefits. In the last two years, the depreciation charge was approximately $40m, and this is largely driven by mine life calculations using known reserves. Anticipated increased reserves in early CY09 should lead to lower depreciation charges going forward and higher profits.

We estimate PAN will make NPAT of around $6.9m after hedging benefits and including a write-down of Copernicus assets of $6m. For FY09, we estimate NPAT of $24.1m, but acknowledge this could be higher if reserves at each operation are increased and depreciation charges are reduced.

VALUATION ANALYSIS

For our DCF valuation of the company we have used the company's actual operating costs as a starting guide to future costs. We expect mining and processing costs to be lower in 2HFY09 than in 1HFY09 due to lower input costs including fuel, steel based material and labour. However, cash costs will suffer from reduced credits due to lower copper and cobalt revenues based on lower forecast prices for these metals. On balance we expect cash costs to be around A$5.30/lb of payable nickel in FY09.

For DCF evaluation purposes, we have assumed mining continues at Savannah for five years. This compares to 4 years of reserves and 6.5 years of resources at forecast FY09 production rates. Despite assuming mining more than current reserves, we still consider this to be conservative given PAN's recent history to add to resources quicker than they are depleted. At Lanfranchi we have assumed mining continues for 10 years compared to 6 and 18 years of reserves and resources respectively.

Our commodity price forecasts used in our analysis are shown below.

FSB forecast nickel prices

		FY09e	FY10e	LT
LME Nickel price	US$/lb	5.90	6.50	6.50
AUD/USD		0.70	0.75	0.75
Nickel price	A$/lb	8.43	8.67	8.67
Nickel price achieved – post hedging	US$/lb	7.15	7.24	6.50

Source: FSB research.

The NPV for PAN in one year's time, based on the analysis discussed above, is A$330.1m or A$1.70 per share.

PAN – Valuation breakdown

	Now		One year forward	
	A$m	$/share	A$m	$/share
Savannah	96.4	0.50	77.5	0.40
Lanfranchi	135.0	0.70	127.9	0.66
Corporate	-35.7	-0.18	-27.1	-0.14
Net cash / (debt)	65.0	0.34	109.8	0.57
Hedge book	77.1	0.40	42.0	0.22
Total	**337.8**	**1.74**	**330.1**	**1.70**

Source: FSB research

RECOMMENDATION AND CONCLUSION

We initiate coverage on PAN with a **BUY** recommendation. **We have set our price target at $1.70/share**, reflecting our one year forward discounted cashflow valuation. Given the negative sentiment towards resources we would normally discount our DCF valuations believing there is risk of prolonged lower nickel prices. However, in our view we are being conservative regarding mine lives given PAN's history of proving up more resources and reserves and are therefore reluctant to discount our DCF based company valuation.

There is currently 100% upside between the current share price and our price target.

We are attracted to the strong balance sheet, prudent hedging program, sound management and near term upside potential to extend mine lives.

Key catalysts for the stock include:

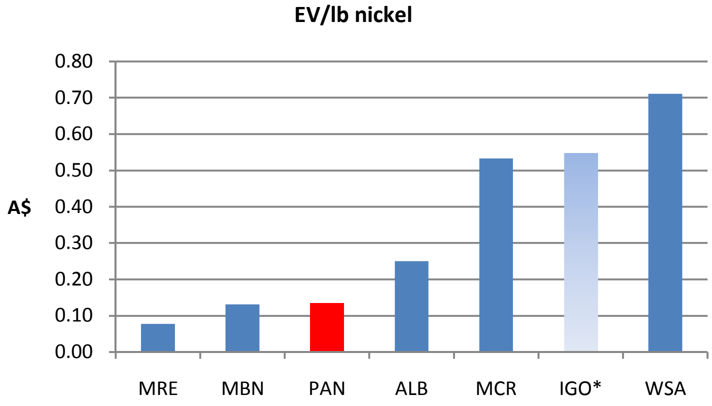
- Increased resources and reserves at both operations;
- Reduced capital expenditure at both operations; &
- Stability in nickel markets and prices.

In our view, the lower base metal price environment and associated low share prices for smaller mining companies will provide opportunities for consolidation in the sector, especially for those companies with sound balance sheets and low cost operations such as PAN. Any value accretive acquisition or merger for PAN, which can consolidate overheads, achieve some economies of scale and potentially diversify PAN's earnings base may also be a key catalyst for the share price over the next 12 months.

PEER COMPARISON

The comparables with PAN on the ASX include IGO, WSA, MCR and to a lesser degree ALB, MRE and MBN.

PAN – Peer comparison of Australian listed nickel stocks



*Source: FSB research. *IGO holds a 30% interest in the 4Moz undeveloped Tropicana gold deposit which could be worth up to as much as IGO's current EV of $87m. No account of this is taken in the above graph.*

On a EV/t of nickel in resources, PAN ranks equally with MBN and higher than MRE. MRE's Murrin Murrin operation is a high cost laterite operation and cash costs at MRE are estimated to be significantly higher than the comparables above. MBN's Santa Rita project in Brazil is close to 70% constructed and final funding is yet to be syndicated. However, in our view the sheer size of the resource base and expected low operating costs will ensure this project is developed. We currently have a BUY rating on MBN with a price target of $4.90/share.

ALB recently commissioned the Munali nickel mine in Zambia and the company recently raised money to meet working capital requirements and re-finance some debt facilities. While management believe they can achieve operating costs of less than US$4.00/lb by June 2009, they believe cash costs in the March quarter of 2009 to be US$5.00/lb. This places the company in a negative cash position at current nickel prices.

While IGO is trading at a significant premium on an EV/lb of nickel in the ground basis, it has a 30% interest in the 4Moz undeveloped Tropicana gold deposit in W.A. WSA's high EV/t reflects the promising exploration potential and the high grade nature of the resources.

Cash costs and net debt / (cash) position of nickel comparables

	Cash cost [1] A$/lb	FY08 profit	Net debt / (cash)	EV - A$m
PAN	4.95	53.3	-100	63
WSA	3.00	-54.9	-44	499
IGO	4.12	51.5	-127	87
MCR	6.40	64.0	65	186
MRE	8.00	101.9[2]	-120	230
ALB	5.33	-2.4	53	68
MBN	3.80	19.7	277	393

Source: FSB research

Note 1: Cash costs are per pound of payable nickel and actual for FY08, except for

- WSA which is an estimate. WSA is in a ramp up stage and does not disclose payable amounts so final cash costs are difficult to determine accurately.
- MRE is an estimate and cash costs vary significantly depending on sulphur costs and cobalt credits
- ALB is an estimate of US$4.00/lb at an exchange rate of AUD/USD of 0.75.
- MBN is an estimate and takes into account copper and PGM credits

Note 2: MRE's profit is half year ending June 08 multiplied by 2. Profit in 2HCY08 is expected to be significantly lower.

KEY RISKS

- **Further nickel price weakness:** Further weakness in nickel prices could lead to a decline in the value of PAN. To mitigate this risk, PAN has adopted a strategy of pursuing assets that are at the lower end of the nickel cost curve and investing in nickel price options that give PAN exposure to the upside but protect on the downside. Given nickel prices have retreated significantly and have already caused a number of mine production cutbacks and closures, we are of the view that further weakness in nickel prices is unlikely even given the dramatic fall in forecast demand. **We view this risk as low**.

- **Commissioning Risk:** A proportion of technical risks are eliminated or come to the surface at commissioning. PAN's projects are established and marginal increases in production, as planned by PAN, carry significantly less risk than constructing and commissioning an entirely new project. **We view the expansion risks as low and manageable.**

- **Technical Risks:** Other typical technical risks inherent in mining are lower than planned mining grades (often due to excessive dilution from low grade rock or inadequately modelled ore bodies and zones) and geotechnical problems. Careful mine planning and geological modelling of reserves should minimise the risk of such events. Risks in processing include lower than planned recoveries in the mill due to a number of reasons. Such factors can impact severely on project economics. **We view these risks as low and manageable.**

BOARD AND MANAGEMENT

Mr Christopher J G de Guingand – Non-Executive Chairman
Christopher de Guingand has had a long and distinguished career in the mining industry, predominately in financial and marketing roles with a number of mining companies as an executive, trader, director or consultant. Chris started his career with CRA where he held senior management positions in marketing non-ferrous metals and iron ore over a 13 year period. He then joined Metals Exploration Limited as Commercial Manager in charge of financing and marketing for the Greenvale Nickel Project. In 1982 he established his own marketing and logistics consultancy, Mineral Commerce Services, which provides marketing and shipping services to a number of base metals projects in Australia and overseas.

Mr Peter Harold – Managing Director
Peter Harold is a process engineer with over 20 years corporate experience in the minerals industry specialising in financing, marketing, business development and general corporate activities. He has extensive experience with the development and operation of both sulphide and laterite nickel projects having been responsible for metals marketing and various corporate functions relating to the Cawse nickel laterite project and the Silver Swan and Mt Keith nickel sulphide projects prior to the acquisition, development and operation of the Savannah nickel project.

Mr Christopher Langdon – Non-Executive Director
Christopher Langdon has over 23 years of corporate finance and management experience and has had extensive experience in investment banking in Australia and overseas working for Wardley Australia Limited, James Capel & Co. and Samuel Montagu & Co. specialising in cross border corporate advisory. He is the Chief Executive Officer of HJ Langdon & Co., a family owned business based in Melbourne involved in the food industry.

Mr John Rowe – Non-Executive Director
John Rowe is a geologist who has had extensive mining industry experience over a 36 year period. Most recently, he was General Manager, Business Development with LionOre Australia responsible for assessing new business, divesting assets and negotiating nickel ore and concentrate sales contracts. Prior to joining LionOre, Mr Rowe spent 12 years with MPI Mines Limited in various group executive roles and was involved in the evaluation, development and production of the high grade Silver Swan nickel sulphide project as well as the Stawell Gold Mine in Victoria. Mr Rowe is also the Principal of John Rowe and Associates which provides geological and business development advice to the mining industry.

Mr Brian Phillips – Non-Executive Director
Brian Phillips is a mining engineer who has had extensive mining industry experience in operational and management roles in precious and base metals over a 40 year period. Brian started his career with the Gold Fields Group in Tasmania, the United Kingdom and Western Australia. In 1981, he joined Metals Exploration Limited and for the next seven years was a director of Metals Exploration Limited, North Kalgurli Mines Limited and Gold Mines of Kalgoorlie Limited. After a period running a privately owned mining services company, Brian became a director of MPI Mines Limited in 1992 and from October 2002 was its Managing Director until the takeover of MPI by LionOre Australia in 2004. He is a former non-executive director of the Australian Gold Council and past President of the Victorian Chamber of Mines (now the Minerals Council of Australia –Victorian Division).

Mr Trevor Eton – Chief Financial Officer and Company Secretary
Trevor Eton is an accountant with over 24 years experience in corporate finance within the minerals industry. Prior to joining the Company in 2003, he was Company Secretary and Group Financial Controller of MPI Mines Limited for 10 years.

Mr Chris Williams – General Manager Operations
Mr Williams is a mining engineer with over 24 years experience in the mining industry. Mr Williams commenced his position with Panoramic as the Mining Manager of the Savannah Project, and accepted the position of Operations Manager of the Lanfranchi Project in December 2004. Mr Williams previously held positions of Mine Superintendent of Harmony South Kalgoorlie Mines and Underground Manager & Mining Manager of Herald Resources, Coolgardie.

TOP TWENTY SHAREHOLDERS

Top Twenty Shareholders as at 30 September 2008

Investor		Holding	%
1.	J P Morgan Nominees Australia Limited	38,913,537	20.27
2.	National Nominees Limited	28,172,005	14.68
3.	HSBC Custody Nominees (Australia) Limited	25,111,248	13.08
4.	ANZ Nominees Limited <Cash income A/C>	24,606,608	12.82
5.	HSBC Custody Nominees (Australia) Limited – A/C 2	4,194,868	2.19
6.	Citicorp Nominees Pty Limited	2,782,746	1.45
7.	UBS Nominees Pty Ltd	2,505,650	1.31
8.	Citicorp Nominees Pty Limited <CFSIL CFS WS Small Comp A/C>	2,208,589	1.15
9.	Cogent Nominees Pty Ltd	1,974,405	1.03
10.	Winton Vale Pty Ltd <The Harold Super Fund A/C>	1,582,813	0.82
11.	Cogent Nominees Pty Limited <SMP Accounts>	1,565,902	0.82
12.	Citicorp Nominees Pty Limited <CFS Future Leaders Fund A/C>	1,411,647	0.74
13.	Mr Peter John Harold	1,400,000	0.73
14.	Invia Custodian Pty Limited <White A/C>	1,360,000	0.71
15.	RBC Dexia Investor Services Australia Nominees Pty Limited<GSJBW A/C>	1,201,512	0.63
16.	Bainpro Nominees Pty Limited	1,066,474	0.56
17.	Australian Reward Investment Alliance	924,250	0.48
18.	Queensland Investment Corporation	695,436	0.36
19.	HSBC Custody Nominees (Australia) Limited – GSI EDA	645,277	0.34
20.	Mr Peter John Harold + Ms Ariane Harold <Allnutt Ventures Family A/C>	645,000	0.34
Total:		**142,967,967**	**74.51**

Source: Company 2008 Annual Report

Panoramic Resources Ltd (PAN)

Full Year Ended 30 Jun

Profit and Loss ($m)	2008a	2009e	2010e	2011e
Revenue	232.4	199.7	210.9	210.9
EBITDA	**111.8**	**81.2**	**79.2**	**71.4**
EBITDA margin (%)	48.1	40.7	37.6	33.9
D & A tangibles	40.4	43.8	43.0	43.0
EBITA	**65.4**	**37.4**	**36.2**	**28.4**
EBITA margin (%)	28.1	18.7	17.2	13.5
Amortisation intangibles	0.0	0.0	1.0	2.0
EBIT	**65.4**	**37.4**	**36.2**	**28.4**
EBIT margin (%)	28.1	18.7	17.2	13.5
Net Interest/(income)	-6.0	-5.7	-6.2	-9.2
Profit before tax	**71.4**	**43.1**	**42.4**	**37.6**
Tax exp / (benefit)	18.1	12.9	12.7	11.3
Minoritiy Interests	0.0	0.0	1.0	2.0
NPAT rep	**53.3**	**24.1**	**29.6**	**26.3**
NPAT adj	**53.3**	**30.1**	**29.6**	**26.3**
EPS adj	28.4	15.6	15.3	13.6

Half Year Ended 31 Dec

Profit and Loss ($m)	1H08a	2H08a	1H09e	2H09e
Revenue	107.2	125.3	103.0	96.7
EBITDA	**51.6**	**60.2**	**37.1**	**44.1**
EBITDA margin (%)	48.2	48.0	36.0	45.6
D & A tangibles	20.0	20.4	21.2	22.6
EBITA	**30.0**	**35.4**	**15.9**	**21.4**
EBITA margin (%)	28.0	28.2	15.5	22.2
Amortisation intangibles	0.0	0.0	0.0	0.0
EBIT	**30.0**	**35.4**	**15.9**	**21.4**
EBIT margin (%)	28.0	28.3	15.5	22.2
Net Interest/(income)	-2.4	-3.6	-2.5	-3.1
Profit before tax	**32.4**	**39.0**	**18.5**	**24.6**
Tax exp / (benefit)	8.0	10.1	5.5	7.4
Minoritiy Interests	0.0	0.0	0.0	0.0
NPAT rep	**24.4**	**28.9**	**6.9**	**17.2**
NPAT adj	**24.4**	**28.9**	**12.9**	**17.2**
EPS adj	12.9	15.5	6.7	8.9

Cash Flow ($m)	2008a	2009e	2010e	2011e
EBITDA	**111.8**	**81.2**	**79.2**	**71.4**
Net Interest	6.0	5.7	6.2	9.2
Tax	-18.1	-31.6	-7.4	-12.7
Δ Working Capital	0.0	0.0	0.0	0.0
Other	-3.9	0.0	0.0	0.0
Operating Cashflow	**95.8**	**55.2**	**78.0**	**67.9**
Capex	-55.6	-50.8	-15.8	-15.8
Net Acquisitions	-3.8	0.0	0.0	0.0
Exploration and Evaluation	-6.1	-15.0	0.0	0.0
Other	0.1	0.0	0.0	0.0
Investing Cashflow	**-65.4**	**-65.8**	**-15.8**	**-15.8**
Equity proceeds	3.6	0.0	0.0	0.0
Debt proceeds	0.0	0.0	0.0	0.0
Debt repayment	-6.6	0.0	0.0	0.0
Dividends paid	-36.1	-12.3	-18.7	-10.5
Other	0.0	0.0	0.0	0.0
Financing Cashflow	**-39.1**	**-12.3**	**-18.7**	**-10.5**
Net Cashflow	-8.7	-22.8	43.4	41.6
Effect of exchange rate Δ				

Balance Sheet ($m)	2008a	2009e	2010e	2011e
Cash	110.9	88.1	131.5	173.1
Receivables	17.7	17.2	17.2	17.2
Inventories	11.2	11.2	11.2	11.2
PPE	120.3	121.3	94.1	66.9
Exploration	13.1	28.1	28.1	28.1
Investments	1.7	0.0	1.0	2.0
Other	57.2	59.5	58.5	57.5
Total Assets	**332.1**	**325.3**	**341.5**	**355.9**
Accounts payable	31.3	30.7	23.8	23.8
Provisions	8.1	8.1	8.1	8.1
Tax liabilities	52.6	26.5	26.5	26.5
Debt	8.4	8.4	8.4	8.4
Other	0.0	5.4	10.7	9.3
Total Liabilities	**100.4**	**79.1**	**77.5**	**76.1**
Reserves and capital	112.5	112.5	112.5	112.5
Retained earnings	119.3	133.7	151.5	167.3
Minorities	0.0	0.0	0.0	0.0
Total Equity	**231.7**	**246.2**	**264.0**	**279.8**

Ratios	2008a	2009e	2010e	2011e
EPS rep c	28.4	12.5	15.3	13.6
EPS adj c	28.4	15.6	15.3	13.6
EPS adj growth (%)	-0.4	-0.5	0.0	-0.1
PER x	3.0	5.4	5.5	6.2
EV/EBITDA x	0.5	1.0	0.5	nm
EV/EBIT x	0.8	2.2	1.1	-0.1
Payout ratio	0.4	0.3	0.4	0.4
DPS Total c	12.0	5.0	6.1	5.4
Yield (%)	14.3%	5.9%	7.3%	6.5%
Average RoE (%)	23.0%	10.4%	12.0%	10.0%
Average RoA (%)	16.0%	7.4%	8.7%	7.4%
Gearing (ND/ND+E) (%)	-0.4	-0.3	-0.5	-0.6
Net interest cover x	47.2	nm	nm	nm
ND/EBITDA x	-0.9	-1.0	-1.6	-2.3
NTA ($ per share)	1.23	1.27	1.36	1.44
# shares on issue	187.8	193.7	193.7	193.7

Price and production	2009	2010	2011	LT
Nickel (US$/lb)	5.90	6.50	6.50	6.50
Copper (US$/lb)	2.32	1.50	1.50	1.50
Cobalt (US$/lb)	25.00	25.00	25.00	25.00
AUD/USD	0.74	0.75	0.75	0.75
Production (contained tonnes)				
Savannah	7,986	7,986	7,986	
Lanfranchi (equity share)	8,325	8,325	8,325	
Total	16,311	16,311	16,311	

Valuation	now		one year	
	$m	$ ps	$m	$ ps
Savannah	96.4	0.50	77.5	0.40
Lanfranchi	135.0	0.70	127.9	0.66
Corporate	-35.7	-0.18	-27.1	-0.14
Net cash / (debt)	65.0	0.34	109.8	0.57
Hedge book	77.1	0.40	42.0	0.22
NPV	**337.8**	**1.74**	**330.1**	**1.70**

FOSTER STOCKBROKING CONTACTS

DEALERS		
Stuart Foster	+61 (0)2 9993 8131	stuart.foster@fostock.com.au
Kevin Massey	+61 (0)2 9993 8130	kevin.massey@fostock.com.au
Kevin Curran	+61 (0)2 9993 8167	kevin.curran@fostock.com.au
Trenton Brown	+61 (0)2 9993 8161	trenton.brown@fostock.com.au
Tolga Dokumcu	+61 (0)2 9993 8144	tolga.dokumcu@fostock.com.au
ANALYSTS		
Dominic Rose	+61 (0)2 9993 8150	dominic.rose@fostock.com.au
Michael Evans	+61 (0)2 9993 8163	michael.evans@fostock.com.au

FOSTER STOCKBROKING Pty Limited A.B.N 15 088 747 148 FSR Licence No. 223687
Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia
Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031
Email: contact@fostock.com.au
PARTICIPANT OF ASX GROUP

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Important Notice: