

# WEEKLY REVIEW

## The RSPT: Is the focus heading away from the 'lucky country'?

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**Quote of the week:** "I mean, this is a government which decides first and thinks later. Again, it's no way to run a country." (Tony Abbott, Leader of the Opposition)

**Stat of the week:** All in all, FIFA acknowledges 208 national associations (plus their associated men's national teams) & 129 women's national teams and yes women have their own tournament as well. (FIFA)

### Macro Discussion – What does the wider view look like?

- Growing pains no reason to spoil junior market's party (Fri, 11<sup>th</sup> Jun)
- US firms hoard biggest cash pile since 1952 as recovery fears persist (Fri, 11<sup>th</sup> Jun)
- Appetite for China's exports strong despite Europe's woes (Thurs, 10<sup>th</sup> Jun)

### News Review:

Below is a review of the headline news which we believe identifies the emerging themes, trends, and events of the last week:

- Rio threatens to cancel contracts of China steel mills (Weds, 16<sup>th</sup> Jun)
- Nyota expands gold exploration footprint in Ethiopia (Tues, 15<sup>th</sup> Jun)
- Rio will spend \$469m to build Michigan nickel/copper mine (Tues, 15<sup>th</sup> Jun)
- We're ready for strike – Eskom (Tues, 15<sup>th</sup> Jun)
- Reed finalises Mt Marion PFS (Tues, 15<sup>th</sup> Jun)
- Prairie Downs, Ivernia join forces (Tues, 15<sup>th</sup> Jun)
- Cape Lambert shareholders pocket \$44M (Tues, 15<sup>th</sup> Jun)
- The RSPT taxes everyone (Tues, 15<sup>th</sup> Jun)
- BHP Billiton plans to accelerate iron-ore investment in Liberia (Mon, 14<sup>th</sup> Jun)
- Afghan mineral wealth could top \$1-trillion – Pentagon (Mon, 14<sup>th</sup> Jun)
- Resetting focus to African perspective (Mon, 14<sup>th</sup> Jun)
- China nickel pig iron makers cut output, Antaika says (Mon, 14<sup>th</sup> Jun)
- GFMS sees little fresh hedging, 3Moz dehedging this year (Fri, 11<sup>th</sup> Jun)
- Bassari extends zone in Senegal (Fri, 11<sup>th</sup> Jun)
- Silver - "the Devil's metal - like gold on crack" (Thurs, 10<sup>th</sup> Jun)
- Baffinland mulls road haulage to start production earlier (Thurs, 10<sup>th</sup> Jun)
- Azumah proves that Australian miners can raise fresh funds, if they're exploring in Africa (Thurs, 10<sup>th</sup> Jun)
- Perseus gets go-ahead for new gold mine in Ghana (Thurs, 10<sup>th</sup> Jun)
- Record high for Mali gold mining (Thurs, 10<sup>th</sup> Jun)
- Mozambique-focused Ncondezi lists in London (Thurs, 10<sup>th</sup> Jun)
- Transnet sticks to coal export target (Thurs, 10<sup>th</sup> Jun)
- Tonkolili on schedule to start production in 2011 – African Minerals (Thurs, 10<sup>th</sup> Jun)
- Mungana Goldmines stockmarket debut marred by mine tax uncertainty (Thurs, 10<sup>th</sup> Jun)
- Ex-Rio chief joins Brockman Resources (Thurs, 10<sup>th</sup> Jun)

### Highlighted Research:

A summary of Ocean Equities most recent research products:

**Kirkland Lake Gold:** *Drilling Extends SMC 340 Feet East (Tues, 15<sup>th</sup> Jun)*

**Chromex Mining plc:** *Research Update - First step change in cash flow expected in the next 6 months with next leg of growth also to become evident (Weds, 9<sup>th</sup> Jun)*

**Northland Resources:** *1mtpa Offtake Agreement signed with Stemcor (Thurs, 3<sup>rd</sup> Jun)*

**Belvedere Resources:** *Indicated Resource Estimate for the K1 occurrence at Kiimala (Thurs, 3<sup>rd</sup> Jun)*

**Rambler Metals & Mining:** *Environmental Permit Received for Ming Mine (Tues, 1st Jun)*

**Nyota Minerals:** *Conditions met for IFC's £3.4m investment for 10% of Nyota (Fri, 28<sup>th</sup> May)*

**Norseman Gold Plc:** *Mar'10 Quarterly Report, expected to be the low point and well flagged to the market (Thurs, 29<sup>th</sup> Apr)*

Refer to page 17 "Highlighted Research" for further detail.

### Ocean Comment:

...And the RSPT debate continues in Australia: As global mining executives continue to battle with Australian Prime Minister Kevin Rudd, it seems quite apparent this week that majors such as Rio and BHPB are shifting their operational focus elsewhere. It may be far-fetched to say that the focus might be on **Afghanistan's mineral wealth**, but the headlines talking of a US\$1 trillion treasure-trove of minerals has certainly turned heads.

Other headlines and news this week has been heavily focussed on **Africa**: **Nyota Minerals** has acquired an 80% interest in a number of highly-prospective tenements stretching over a 4,500 km<sup>2</sup> area, near its Tulu Kapi project in Ethiopia in a share-and-cash deal.

Until May 2<sup>nd</sup> this year, Australia was, in at least four major commodities the preferred investment destination for global mining's 'big four'. However, there is now interest and optimism in unusual and new places

But what do Guinea, Liberia, Mongolia, The Philippines, Indonesia and the Canadian province of Saskatchewan have in common? Each of them is on track to join the wealth-generating frontline of the global minerals business in the coming decade on the back of multi-billion-dollar investments by minerals companies that draw much of their investment capacity from mining in Australia.

...Continued Page 2.

OCEAN EQUITIES Ltd

Wednesday, 16<sup>th</sup> June 2010

### Commodity spot prices - quick look

Precious Metals	Last	1W %
Gold (US\$ / oz)	1,231.0	0.12
Silver (US\$ / oz)	18.4	1.04
Platinum (US\$ / oz)	1,567	2.12
Palladium (US\$ / oz)	471.3	3.62
Base Metals		
Copper (US\$ / t)	6,653.5	8.46
Nickel (US\$ / t)	20,160.0	9.49
Cobalt (US\$ / lb)	14.8	0.00
Zinc (US\$ / t)	1,807.0	6.14
Lead (US\$ / t)	1,737.0	9.73
Bulk Metals		
Iron Ore - China Fines	151.5	0.33
Iron Ore - China Pellets	172.0	0.00
Coal - NYMEX Yr1 Fut (U	68.6	0.53
Chrome - FOB RSA Spot (C	292.5	0.00
Energy		
WTI Oil (US\$ / barrel)	76.6	2.95
Brent Oil (US\$ / barrel)	76.3	3.95
Baltic Supramax Index	2,345	-7.06

### Currency prices - quick look

	Last	1W %
US\$ / £	1.48	1.68
US\$ / €	1.23	2.35
US\$ / C\$	1.03	1.19
US\$ / A\$	0.86	3.54
US\$ / ZA Rand	7.60	2.02

Refer to page 3 for "Commodity and Currency prices in more detail".

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## Commentary of the Week:

The investment progress in these destinations highlights the immediate impact on the short to medium-term outlook for investment in the Australian resources industry that Kevin Rudd's ludicrous super-profits tax on minerals production has had.

It may seem far-fetched to imagine that Rudd's attempt at a tax-grab is the sole reason for Rio's investment in Guinean iron ore, Mongolian copper and gold and Indonesian nickel and BHPB's investment in Guinean bauxite, Liberian iron ore, Indonesian coal and Canadian potash. But what cannot be ignored is that there is now severe uncertainty around huge capex projects in Australia, such as BHPB's Rapid Growth Projects ("RGP"). Previously a firm decision on RGP6 was due this year, but with the uncertainty created by the new tax, it is very hard to see how BHPB can pull the trigger on that plan.

The sounds coming from Rio have also been along the same lines with CEO Tom Albanese confirming at Rio's Australian annual meeting on May 26<sup>th</sup> that his company's evaluation of plans to grow iron ore output from 220Mtpa to at first 280Mtpa and then 330Mtpa had been made "far more complex" by the tax plan.

At some point in the demand cycle that Albanese described, it would seem likely that circumstances might justify new investment in Australian minerals development. But the shame of all this is that, for the moment at least, Australia is suddenly perceived behind the likes of Chile, Peru and even Mongolia as a competitive destination for mining investment.

### What Australian's that believe the RSPT is good for Australia need to know:

What has dismayed the Australian business world is that not only do Rudd and his Treasurer Wayne Swan continue to imply miners are "ripping off Canberra" but that neither shows any competence or insight when it comes to finance and economics. A recent insider report sent by a major resource bank to its clients referred to a breakfast meeting Swan held with financiers to sell the RSPT. The report notes that when asked why the tax would kick in at a long term bond rate of around 6% instead of at a higher rate (normally 10%) as a weighted cost of capital, Swan hadn't understood the question, but the audience knew only too well that investment in a new project is not feasible unless the return on investment was above the cost of capital.

The flow-on effect is that the Australians not involved and/or who know little about mining and the Australian mining industry are being wrongly persuaded that all Australians will benefit under the current RSPT proposal. The arguments why the this is untrue remain clear:

- **Australia is putting its competitive advantage at risk:** It is increasingly obvious that mining companies will look to invest their money elsewhere if the RSPT is implemented. Without investment into Australia's mining sector it is clear that it then loses its competitive advantage due to export markets favouring other mineral producers such as Canada and Africa. The proposed total tax rate on miners is notionally 57%, although it would vary from project to project. In contrast Canada, which is Australia's biggest and most evenly matched competitor in the resource world, has an effective tax rate for miners of about 30%.
- **Risky revenue derived from the RSPT:** revenues to be derived from this tax are likely to be highly volatile and pro-cyclical. In the good times, the money will roll in, but in the bad times and with lower commodity prices (and commodities have always been cyclical) taxpayers will be shovelling money out to the resources companies. Does this really make any sense? What is the case for introducing such a tax in terms of prudent fiscal management? It is easy to be lulled into thinking the resources boom will last for a long time but as little as two years ago there were rafts of mine closures across Australia.
- **There are flow-on effects...and more flow-on effects:** There is also a definite risk to house prices. The mining industry and the proposed 270 new projects involving investment of about A\$300 billion were a security blanket. They give confidence to global institutions to lend to Australian banks even though Australia's enormous overseas bank borrowing puts Australian debt into a similar range to Italy and not far behind Spain when related to GDP. In the good times, overseas lenders did not put Australia in the same bracket as Spain and Italy because they were optimistic about Australia as a thriving pro-business growing economy due to its mineral base.

Overseas institutions' views of Australia has changed based on the current government moves vis-à-vis basic economic management. The Government has made a serious mistake by incorporating into future budget estimates a tax that makes most those new mining projects uneconomic. Put simply, without a certain level of return, banks will not lend to a project because it does not make economic sense. Banks require both a certain level of return and a buffer before they will risk investing, as well as confidence in the economic sophistication and stability of a country. With these new taxation rules, bank funding will stop or significantly slow down. The big lenders to Australia (China, Japan, the Middle East and European institutions) are now worried that there has been a fundamental change in the sovereign risk of Australia because it has started to do silly things. This is critical because Australia's four major banks borrow overseas to fund about 40% of every housing loan.

- **And what about pensions?** Superannuation funds have a substantial part of their funds invested in the Australian resource industry. While current mining operations will continue, the additional RSPT payable will reduce the capacity of companies to pay dividends. The lower profits and dividends will also negatively impact the market value of these investments, as will the lower growth expectations. It is not only the foreign and local direct investors who feel these impacts, but also will employees who are members of superannuation funds.
- **A tax on revenues means mining companies have less to give back:** Mining is a capital-intensive business; a miner's profits help pay off years of sunk costs in yesterday's mines and help create mines for the future. The state governments are rent-seekers, eager to extract benefit and slow to put anything back. In 2009 BHPB invested over A\$60m improving town facilities by building more parks, playgrounds and upgrading sporting and social facilities; improving health services in the townships and remote areas; better support for quality education and training through dedicated programs, facilities and training and indigenous wellbeing, health and education. This included A\$18 million on building two new childcare centres in Port Hedland and Newman. How long will it take the Rudd government to do something like this?

How can Rudd have gone about this with absolutely no consultation? Previously he was highly regarded by the industry for his understanding of the sector. Mining lobbies who clearly would like to see Rudd thrashed in the General Election later this year are also aware that a A\$38m (US\$32.7m) Government advertising campaign to sell the RSPT is implying that minerals were owned by all Australians (they are not - they are constitutionally owned by each State) and that this could win votes in the weak mining States of New South Wales and Victoria, both of which have poor financial positions. The politics of envy may apply. We hope to see a 'smarter' Australia stand up for an industry that saved the country from a severe recession. While the rest of the world was wallowing in the worst recession in living history, Australia sailed through and rebounded faster than any other country in the world because of the strength of the mining industry. Rudd is biting the hand that feeds both him and Australia.

### RELATED NEWS ARTICLES:

- [Nyota expands gold exploration footprint in Ethiopia \(Tues, 15th Jun\)](#)
- [Rio will spend \\$469m to build Michigan nickel/copper mine \(Tues, 15th Jun\)](#)
- [The RSPT taxes everyone \(Tues, 15th Jun\)](#)
- [BHP Billiton plans to accelerate iron-ore investment in Liberia \(Mon, 14th Jun\)](#)
- [Afghan mineral wealth could top \\$1-trillion – Pentagon \(Mon, 14th Jun\)](#)

Resetting focus to African perspective (Mon, 14<sup>th</sup> Jun)

Bassari extends zone in Senegal (Fri, 11<sup>th</sup> Jun)

Azumah proves that Australian miners can raise fresh funds, if they're exploring in Africa (Thurs, 10<sup>th</sup> Jun)

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Tonkolili on schedule to start production in 2011 – African Minerals (Thurs, 10<sup>th</sup> Jun)

## Out of the Box: Makeover in the making



The super profits tax is shooting the Australian mining industry in the foot, and the C-300 Bill is doing the same to the Canadian mining industry. Very unusually, the South African mining industry finds itself in a far better space in which government, the industry and organised labour have the Migdett vehicle for joint improvement. South Africa's long history of mining angst has seemingly folded into a collaborative mining industry growth, development and employment task team. If Migdett works, South African mining will be competitively positioned to take full advantage of the commodities super cycle that refuses to go away.

[miningweekly.com](http://miningweekly.com)

## Commodity and Currency prices in more detail:

Commodity spot prices	Last	1D %	1W %	1M %	12M %	YTD %
<b>Precious Metals</b>						
Gold (US\$ / oz)	1230.75	-0.20	0.12	0.33	32.10	12.04
Silver (US\$ / oz)	18.41	-1.03	1.04	-3.71	30.27	8.75
Platinum (US\$ / oz)	1567.15	-0.72	2.12	-8.55	28.48	6.75
Palladium (US\$ / oz)	471.25	-0.79	3.62	-10.62	95.13	15.93
<b>Base Metals</b>						
Copper (US\$ / t)	6653.50	0.28	8.46	-3.49	33.56	-9.38
Nickel (US\$ / t)	20160.00	-0.35	9.49	-6.15	37.30	9.26
Cobalt (US\$ / lb)	14.75	0.00	0.00	0.00	31.11	17.53
Zinc (US\$ / t)	1807.00	2.41	6.14	-10.75	17.00	-28.55
Lead (US\$ / t)	1737.00	2.61	9.73	-9.08	5.24	-27.69
<b>Bulk Metals</b>						
Iron Ore - China Fines CFR (US\$/t)	151.50	0.33	0.33	-17.44	98.04	35.87
Iron Ore - China Pellets CFR (US\$/t)	172.00	0.00	0.00	-12.24	63.81	43.33
Coal - NYMEX Yr1 Fut (US\$/t)	68.55	0.66	0.53	2.68	7.53	27.11
Chrome - FOB RSA Spot (CNY/t)	292.50	0.00	0.00	7.34	56.00	56.00
<b>Energy</b>						
WTI Oil (US\$ / barrel)	76.55	-0.51	2.95	6.90	8.63	-3.54
Brent Oil (US\$ / barrel)	76.30	-0.20	3.95	-0.74	10.61	-1.14
Baltic Supramax Index	2345.00	-1.22	-7.06	-23.76	38.02	5.44
<b>Currency</b>						
US\$ / £	1.48	-0.01	1.68	2.70	-9.71	-8.26
US\$ / €	1.23	-0.15	2.35	-0.06	-11.05	-14.07
US\$ / C\$	1.03	0.14	1.19	1.27	10.42	1.72
US\$ / A\$	0.86	0.13	3.54	-0.79	8.30	-3.93
US\$ / ZA Rand	7.60	0.06	2.02	0.16	5.77	-2.84

Source: Bloomberg

### Growing pains no reason to spoil junior market's party (Fri, 11<sup>th</sup> Jun)

**Aim is 15 years old this month, and to mark the occasion the London Stock Exchange is staging a party next week in Paternoster Square.** Market participants should not expect a rerun of the extravagant 10th birthday bash at London's Honourable Artillery Company grounds five years ago. Then companies were flocking to the junior market at a terrific rate, and the drink flowed freely late into the night.

Back in June 2004 Martin Graham, then head of Aim, stuck his neck out and predicted that the market would boast 1,000 companies by the time it was 10 years old. My scepticism that another 170 companies would come to market in a mere 12 months was rapidly confounded. Number 1,000 arrived on December 10 2004, and by June 2005 the total had increased to 1,207.

The latest statistics show that at the end of May there were 1,243 companies on Aim. The decline from the peak of 1,700 in January 2008 has been steep, a fact that is reflected in the more subdued festivities scheduled for breakfast time next Thursday.

Nevertheless the May figures indicate that the worst might be over. There are a few things worth celebrating.

In the year to date £1.86bn has been raised, up from £1.26bn at the same stage last year. May has been the best month so far for secondary funds raised – its total of £426.9m comfortably exceeding the £365.6m raised the previous May.

The number of companies leaving the market continues to decline. Three of the 11 departees have moved to the full list – Entertainment One, the television and film group; RSM Tenon, the accountancy firm; and Great Eastern Energy Corporation, the Indian coalbed methane producer. Their success means that only eight companies delisted last month, compared with 19 in May last year.

The total number of admissions so far this year is now 28 following the successful flotation on Wednesday of Ncondezi Coal, which is planning an open pit mine in Mozambique. By the end of May last year, only 10 new companies had been admitted.

While the total amount of new money raised in May was just £5.2m, June has got off to a good start with Ncondezi raising \$52m (£35.6m). That was slightly below the \$60m it had hoped to raise, but not bad considering the erratic demand for commodity stocks.

Bellzone, which is planning to develop an iron ore mine in Guinea, joined Aim in April after settling for about half the £60m it set out to raise. On the main market Essar Energy, the Indian power group, was forced to cut its offer price last month, and Ferrous Resources, the Brazilian iron ore miner, last week postponed its \$3.5bn flotation on the main list.

The Aim breakfast party is nicely timed a few days before the emergency Budget. Let's hope the Treasury picks up on the positive aspects of the junior market, and pays some heed to the intensive lobbying of the new government on behalf of the small cap sector.

Here's a reminder of some of the tax breaks that might spark further celebrations in the not-too-distant future – an increase in the gross asset limit from £7m to £25m and the limit on employees from 50 to 250 to qualify for investment from venture capital trusts; freedom for VCTs to invest in the secondary market; permission to include Aim shares in ISAs; the maintenance of the annual tax-free allowance on capital gains at £10,100; and the reintroduction of taper relief on capital gains for long-term holders of small cap shares.

#### Floating ideas

A hot-air balloon will float above the birthday breakfast celebrations. It is promoting the idea that Aim is the market where ideas take off. Perhaps it is just as well that it will not be offering tethered rides – the last thing Aim should be suggesting is that it is a market that rises and falls but does not actually go anywhere.

Ideas that take off are not easy to come by. Software Radio Technology joined Aim in 2005 at 30p a share, and raised about £12m that was mainly sunk into developing technology for radio mobile phones used by the police and emergency services for secure communications.

The technology failed to reach the commercialisation stage, and the business was discontinued, sending the shares to a low of 1½p.

Fortunately the automated identification systems division, which tracks the position of ships at sea, has built a dominant position in a growing global market.

This week's much improved results had been anticipated by a rise in the share price over the past 18 months. But early investors are still under water – the closing price on Wednesday was 22¼p.

*(Financial Times)*

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### US firms hoard biggest cash pile since 1952 as recovery fears persist (Fri, 11<sup>th</sup> Jun)

**US companies are holding more cash in the bank than at any point in the past 58 years, underscoring persistent worries about the sustainability of the economic recovery and the potential for a renewed financial crisis.** The Federal Reserve reported yesterday that non-financial companies had socked away \$US1.84 trillion (\$2.12 trillion) in cash and other liquid assets as of the end of March, up 26 per cent from a year earlier and the largest increase on records going back to 1952.

Cash made up about 7 per cent of all company assets including factories and financial investments, the highest level since 1963. While renewed confidence in corporate-bond markets has allowed big companies to raise a record amount of money, many are still hesitant to spend the money on hiring and expansion amid doubts about the strength of the recovery. They're also anxious to keep cash on hand in case Europe's debt troubles lead to a new market freeze.

"Cash is still king," says Jeff Hand, chief operating officer at Ross Controls, a Troy, Michigan, maker of pneumatic valves and other products that is holding more cash as it struggles to recover from a sharp drop in business last year.

"We're coming out of that, but the uncertainty is still there." Ross cut its US staff by about a third last year, and has hired back only a small fraction, he says.

The rising cash balances could represent a longer-term shift in corporate behaviour in the wake of the worst financial crisis in decades. In the darkest days of late 2008, even large companies faced the threat that they wouldn't be able to do the everyday short-term borrowing needed to make payrolls and purchase inventory.

"We just went through this liquidity crunch that's made them realise the value of a dollar in hand," says Duke Fuqua School of Business economist John Graham.

Even now, banks are pulling back: The Fed reported yesterday that net lending by the financial sector fell at a seasonally adjusted annual rate of \$US1 trillion in the first quarter from fourth quarter, the fifth straight quarterly decline. Still, the comfort of having cash on hand comes at a

high price.

Companies are earning almost no interest on their holdings of cash. That will put pressure on companies to pare down the cash holdings eventually.

"Stockholders don't want them to keep sitting on cash at a zero return," says Paul Kasriel, an economist at Northern Trust. "They're going to use it", either to increase hiring and investment or to make payouts to shareholders in the form of dividends or share buybacks, he says.

In a recent survey of company chief financial officers that Mr Graham conducted with CFO Magazine, he found that companies expect capital spending to increase by 9 per cent over the next year, compared to 1.5 per cent when he asked the question in December.

They expect employment to grow by a meagre 0.7 per cent, compared to a 1.4 per cent drop they expected six months ago.

Cash has piled up at Hooker Furniture, based in Martinsville, Virginia. The company has seen increasing demand for the upholstered furniture it makes in the US, which usually leads demand for the other furniture it imports from China, but it's being cautious nonetheless. When it reported results Monday, the company said it had \$US38.7m in cash and other highly liquid assets on its balance sheet in its fiscal quarter ended May 2, up from \$US26.2m a year earlier.

"We're a fairly conservative company, and keeping our powder dry makes sense to use," says chief financial officer E Larry Ryder.

Mr Ryder says he sees the cash as a sort of insurance fund to make sure he can buy the raw materials and other inventory he'll need to meet demand if business picks up. The company has cut its inventories to \$US38.5m from \$US47.1m over the past year.

"We don't want to tie our cash up to the point that we don't have the liquidity we need to accumulate inventory when we need it," says Mr Ryder.

Meanwhile, US household debt fell for the seventh straight quarter in the first three months of 2010 as Americans continued to respond to the recession's fallout.

Household debt fell at a 2.5 per cent annual rate to \$US13.54 trillion in the first quarter.

The household sector's debt level, which includes both consumer credit and mortgage loans, remained at about 20 per cent of total assets in the first quarter.

The ratio is down from a peak of around 22.5 per cent in the first quarter of 2009, but still well above a ratio of about 15 per cent in the mid-1990s.

Excessive debt-financed spending was one of the causes of the recent recession.

After living beyond their means, Americans were stung and are paring back their debt. While that may be good for the long-term health of the economy, it has kept a lid on consumer spending, a key engine for economic growth.

The Fed report showed that US households' total net worth, meantime, climbed 2 per cent, to \$US54.57 trillion.

Household net worth is assets, such as home equity, minus liabilities, such as mortgage debt. The gain in wealth came as holdings in corporate equities and mutual funds picked up.

[\(Wall Street Journal\)](#)

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## Appetite for China's exports strong despite Europe's woes (Thurs, 10<sup>th</sup> Jun)

**CHINA posted a trade surplus for the second straight month in May as stronger-than-expected export growth sharply widened the surplus from the previous month, indicating the troubles in Europe have yet to dent appetite for Chinese goods.** China's rising trade surplus and strong growth in exports may lead to renewed pressure on Beijing to allow appreciation of China's currency, the yuan, which would reduce the competitiveness of its exports.

"Events in Europe might still have an impact on Chinese growth, but it hasn't happened yet," Royal Bank of Canada economist Brian Jackson said in a note.

"In the meantime, strong export growth and a sharp pick-up in China's trade surplus will not go unnoticed in Washington."

China's trade surplus last month reached \$US19.53 billion (\$23.3bn), well above the median \$US8.8bn forecast in a Dow Jones Newswires survey, and up sharply from April's \$US1.68bn surplus.

Exports rose 48.5 per cent in May from a year earlier to \$US131.76bn, higher than April's 30.5 per cent growth, data issued by the General Administration of Customs showed. It was the sixth month in a row of growth and also was higher than expectations for a 30.2 per cent gain.

Import growth, a gauge of the strength of China's domestic demand and its appetite for commodities, rose 48.3 per cent to \$US112.23bn, slowing slightly from April's 49.7 per cent rise, but up for the seventh straight month. Economists surveyed had expected imports to rise a slower 43.5 per cent.

Separately, persistent strength in Chinese property prices suggested Beijing's recent tightening measures may not be effective enough, which could build a case for China's central bank to consider a rate hike in coming months.

Property prices in 70 of China's large and medium-sized cities rose 12.4 per cent in May from a year earlier, staying close to April's record 12.8 per cent rise, the National Bureau of Statistics said.

Prices in May rose 0.2 per cent from April, narrowing from April's sequential 1.4 per cent rise, the bureau said.

May was the 12th consecutive month that urban property prices increased from a year earlier. Recent government measures have aimed to rein in speculation in the property market and curb runaway prices but have yet to lower transaction prices nationwide.

However, the volume of home purchases slowed in May. In terms of floor space, home sales last month fell 15.8 per cent from April to 67.7 million square metres, the bureau said.

The overall picture suggests a standoff between buyers and developers, with the latter possibly waiting for Beijing to go easy on the sector if global economic uncertainties keep growing.

[\(theaustralian.news.com.au\)](#)

### Rio threatens to cancel contracts of China steel mills (Weds, 16<sup>th</sup> Jun)

**Rio Tinto iron ore boss Sam Walsh says he is prepared to cancel contracts and head to the spot markets if Chinese steel mills renege on the new quarterly pricing regime.** Rio also believes current iron ore prices, which are down 20 per cent in the past six weeks, are close to a floor, according to analyst accounts of a meeting with Mr Walsh in London yesterday.

Analysts are concerned that while Chinese steel mills are happy with the new quarterly pricing system when spot prices are higher than quarterly prices, mills might not be so keen to pay up if the situation reversed.

Third-quarter contract prices are now expected to be higher than spot prices.

"If Chinese customers renege on quarterly contracts in favour of spot prices at any time, then Rio will cancel quarterly pricing and charge on a spot basis," Citigroup analyst Heath Jansen said in a report after the meeting.

"Spot-basis pricing to China would cause problems for mills, leaving them with large exposures to the market and less resource security."

Nomura analysts said selling at spot would mean no long-term volume contracts, but Rio did not believe this would affect funding of major projects.

Spot Chinese iron ore prices of around \$US140 a tonne are seen as a floor by Rio, according to Nomura, because of the high cost of Chinese domestic production and the strength of demand.

"It (Rio) is not expecting a big jump in prices, but does not expect prices to keep on falling," Nomura analyst Paul Cliff said.

Rio has flagged a strong second-quarter production report, saying its West Australian iron ore mines have been operating at or above full annual capacity of about 220 million tonnes.

Mr Walsh also confirmed reports it was pricing third-quarter iron ore on the average of prices from March-to-May, rather than April-to-June as had been expected by most analysts.

According to the reports, Rio will not challenge WA Premier Colin Barnett's plan to raise royalties to 5.625 per cent.

[theaustralian.news.com.au](http://theaustralian.news.com.au)

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### Nyota expands gold exploration footprint in Ethiopia (Tues, 15<sup>th</sup> Jun)

**Gold exploration company Nyota has acquired an 80% interest in a number of highly-prospective tenements stretching over a 4 500 km<sup>2</sup> area, near its Tulu Kapi project, in Ethiopia, in a share-and-cash deal.** It had issued 20-million Nyota shares and £60 000 to two unidentified parties to acquire the stake in the tenements, which were thought to exhibit the same major geological structure as its Tulu Kapi project.

"The north-west of Ethiopia is rapidly attracting the attention of a number of exploration companies and we are delighted to have secured this strategic addition to our tenement portfolio," CEO Melissa Sturgess commented in a statement to shareholders.

She added that the newly-acquired tenements would augment the existing potential of the Tulu Kapi project, which has a resource of 1,38-million oz of gold.

[miningweekly.com](http://miningweekly.com)

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### Rio will spend \$469m to build Michigan nickel/copper mine (Tues, 15<sup>th</sup> Jun)

**Diversified miner Rio Tinto will invest \$469-million to develop the Kennecott Eagle nickel/copper mine, in Michigan's Upper Peninsula, the group announced on Tuesday.** Construction will start this year and first production is scheduled in late 2013 from what will be the only primary nickel mine in the US.

The operation is also the first new mining operation to be built in Michigan in decades.

Rio recently received the final environmental approvals for the mine, "under some of the most stringent environmental permitting rules in the US", copper business unit CE Andrew Harding said in a statement.

"Moving to the construction phase of Eagle is part of our strategy to increase investment in attractive growth projects in 2010.

"The long-term demand outlook remains strong for both nickel and copper and bringing Eagle on stream will give us greater benefit from that growth," Harding added.

The Eagle mine will produce separate nickel and copper concentrates containing an average of 17 300 t/y and 13 200 t/y respectively of nickel and copper metal over six years.

The \$469-million will be used to build a new underground mine, associated surface facilities for servicing the mine, rehabilitation of an existing mill and development of a multi-use access road.

[miningweekly.com](http://miningweekly.com)

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### We're ready for strike – Eskom (Tues, 15<sup>th</sup> Jun)

**Power generating utility Eskom said on Tuesday that its ready should its 16 000 workers decide to go on a strike over wages.** "Should the strike go ahead, Eskom will implement contingency measures to minimise the impact of the strike to limit the impact to security of supply," it said in a statement.

Eskom workers, represented by three unions - Solidarity, the National Union of Mineworkers (NUM) and the National Union of Metalworkers of South Africa (Numsa) - originally demanded an 18% wage increment and a housing allowance while Eskom was offering 5.5%.

Eskom has since increased its wage offer to 7% while there are indications that the NUM might be willing to lower its demand.

"Eskom is currently in negotiation with labour unions over wage increases. We are currently in negotiations through the CCMA process," Eskom said.

Management at the parastatal have come under renewed criticism from unions after Solidarity revealed that some directors could receive as much as R1m in performance share payouts.

Initial criticism came after Eskom returned to profitability and reported a R3.6bn surplus, where unions said they fail to see why the power utility could not offer a higher wage increment.

Solidarity said that Eskom's financial statements made provision for the payment of performance shares to the value of R9.6m to directors and senior managers this month.

NUM has threatened to strike if they fail to reach a wage agreement with their employer.

Eskom has moved swiftly to deny that the strike would not hamper electricity supply during the FIFA Soccer World Cup underway in South Africa, the first to be held on the African continent.

[\(\[miningmx.com\]\(http://miningmx.com\)\)](http://miningmx.com)

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## Reed finalises Mt Marion PFS (Tues, 15<sup>th</sup> Jun)

**Diversified resources company Reed Resources is hoping to make a decision to develop its Mt Marion lithium project in Western Australia within the next two months, after a prefeasibility study delivered an internal rate of return of 68%.** The company is developing the project, located 40 kilometres south of Kalgoorlie-Boulder, in joint venture with leading Australia-based mining services and processing company Mineral Resources, and is targeting first shipments by the first quarter of 2011.

The PFS, undertaken by Hatch, investigated the merits of a 120,000 tonnes per annum kiln rate producing 17,000tpa of battery grade lithium at a spodumene concentrate grade of 6.5% lithium oxide, based on potential plant sites in Kwinana, Malaysia and China.

It returned a net present value of \$US404 million and a payback of around two years.

The cheapest plant option investigated was China, which returned an estimated capital cost of \$63.6 million (\$A74.13 million), followed by Malaysia at \$US70.9 million and Kwinana at \$125 million.

Interestingly, a \$20.8 million contingency was built into the Kwinana model, compared with a \$10.8 million contingency for China and \$11.8 million for Malaysia.

The company's preferred option in the medium to long term is to develop a wholly owned plant site in China or Malaysia, particularly as China is already the largest converter of lithium minerals to chemicals.

Reed is currently in discussions with a number of domestic and Asian parties seeking toll-conversion and standalone lithium carbonate joint venture arrangements based on downstream ventures to produce high purity lithium products.

In addition to the current resource estimate of 8.9 million tonnes grading 1.4% lithium oxide at Mt Marion, Reed has identified potential for additional spodumene-bearing pegmatite within its holdings.

To this end, it has outlined an exploration target of 10-15Mt at a grade of 1.1-1.4% lithium oxide.

Further exploration is being considered to test for not only strike and depth extensions to current resources, but to assess additional pegmatites.

[\(\[miningnews.net.au\]\(http://miningnews.net.au\)\)](http://miningnews.net.au)

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## Prairie Downs, Ivernia join forces (Tues, 15<sup>th</sup> Jun)

**The future exploration and development of Prairie Downs Metals' namesake property has received a boost after the junior explorer inked a heads of agreement with Toronto Stock Exchange-listed Ivernia to advance the Pilbara-based project.** Ivernia, an international base metal mining and exploration company, can earn an option to acquire 60% of the project by spending \$A3 million on exploration in 18 months.

Of that amount the company is obliged to invest a minimum of \$2 million in the next 12 months.

At the conclusion of the 18-month period, Ivernia can elect to take a 60% stake in the project by paying Prairie \$10 million in cash or Ivernia shares, or undertake a further 18 months of exploration by spending a minimum \$2 million.

Once it has acquired 60% of the project, Ivernia has the option to form a joint venture with Prairie and to invest a further \$5 million to increase its stake in the project to 80%.

Prairie Downs managing director John Welborn told MiningNews.net the spending on exploration was a significant amount for a project of this size and scale.

"It is going to result in a lot of work and a lot of drilling and a lot of activity over the next 12 months which is going to be exciting," he said.

"From Ivernia's point of view, when you understand their strategy of looking at exploration plays and running off their existing expertise, so to bring in someone who has got international credentials as well as development of a mine and the running of a mine is good news for Prairie."

Ivernia will immediately begin an exploration program designed to test the exploration potential of the Prairie Downs project.

The program is expected to target high-priority geochemical and geophysical targets in the vicinity of the existing mineralisation and a number of high-priority geochemical targets along strike of the regional structure.

Prairie said today it was enthusiastic about the opportunity the Ivernia deal provided to advance the project.

"The joint venture contemplated by the binding heads of agreement will result in a fully funded and expertly managed exploration program

designed to expand existing resources and discover new world-class zinc-lead deposits," Prairie said.

Prairie also noted that the Ivernia deal would allow the company to focus on new opportunities.

"The company has developed an efficient project identification and due diligence capability and is continually reviewing new investment opportunities designed to complement existing assets and deliver long-term growth to shareholders," the company said.

"The company is considering assets in a number of commodities and jurisdictions and is confident that its disciplined approach will continue to deliver positive outcomes for shareholders."

Ivernia is an international base metals exploration, development and mining company with a particular interest and expertise in zinc-lead deposits.

The company's subsidiary Magellan Metals restarted operations at its namesake lead mine near Wiluna in February.

The mine had been on care and maintenance since April 2007 after Magellan was banned from shipping lead concentrate through Esperance Port.

Earlier this month, Prairie Downs announced a new and independent analysis of its namesake property.

The total indicated resource at Prairie Downs now stands at 2.28 million tonnes grading 5.22% zinc, 1.59% lead and 15 parts per million silver [2.25Mt at 7.7% zinc, 2.1% lead and 22ppm silver previously], while inferred numbers dropped to 700,000t at 4.03% zinc, 1.58% lead and 14.9ppm silver compared with the previous estimate of nearly 2.4Mt at 5% zinc, 1.5% lead and 13ppm silver.

Prairie Downs is located 100 kilometres southwest of Newman and in April the company appointed Optiro to sign off on an updated resource estimate.

[miningnews.net.au](http://miningnews.net.au)

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## Cape Lambert shareholders pocket \$44M (Tues, 15<sup>th</sup> Jun)

**Cape Lambert Resources is set to return some \$A44 million to shareholders on the back of the \$135 million sale of the Lady Annie project in Queensland to Hong Kong-listed China Sci-Tech Holdings earlier this month.** The Tony Sage-led resource investment group expects to return a portion of the cash received from the sale of Lady Annie to shareholders as a partially franked 7c per share special dividend.

In today's statement, Cape Lambert said the dividend was marginally lower than planned as a result of the need to maintain sufficient cash reserves to fund its offer for DMC Mining, upgrade the Marampa rail and port, settlement of the Leichardt copper project deal and other investment opportunities.

The payment of this special dividend brings the total returned to shareholders in the past two years to \$144 million, or 30c per share.

In October 2008, the company returned \$100 million to shareholders by way of a return of capital and special dividend.

Cape Lambert is currently in a tug-of-war with rival bidder Meijin Energy Group for control of DMC Mining.

Earlier this month, the company matched the 53c per share takeover offer for DMC Mining made by Meijin.

Cape Lambert already holds a 35.45% stake in DMC while Meijin has a 9% stake in the iron ore hopeful.

DMC owns an 80% stake in the Mayoko iron ore project in the Republic of Congo.

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## The RSPT taxes everyone (Tues, 15<sup>th</sup> Jun)

**One of the more perverse aspects of the resource super profits tax is the way that it is being characterised as a kind of class struggle, with the champions of the proletariat (aka Kevin Rudd) set in an unfair battle against the mining plutocrats (Andrew Forrest, Clive Palmer and Gina Rinehart).** That is an easy caricature to draw, given the visibility of Forrest and Palmer in particular in the debate, and the incongruous sight of Rinehart shouting "axe the tax" in Perth last week.

The reality of the tax is somewhat different. While the RSPT undermines Fortescue Mining's financing model – and indeed, if implemented, would spell the end of the project financing model used by most emerging miners – the most affected by the tax are the big long-established mines.

BHP Billiton and Rio Tinto will pay a high proportion of the tax because of their very profitable operations in the Pilbara and the coalfields of Queensland. BHP's effective tax rate is estimated at 55 per cent if the tax is introduced.

While the government and its supporters have tried to demonise the big miners, referring to them as greedy foreigners, corporate entities are just vehicles for collective investment. The owners of the miners are either individuals, local and foreign, or institutions investing on behalf of individuals, local and foreign. A majority of BHP's shareholders are Australian, as would be the case for most of the smaller mining hopefuls.

The concept of the dividend imputation system was that corporate earnings would effectively be taxed once, in the hands of shareholders. With the top tax rate and the corporate tax rate misaligned, of course, that's not entirely the case.

Across the sector, however, the underlying truth is that the RSPT ultimately impacts individuals and their savings and the industry, as opposed to a couple of billionaires, is trying to protect those savings and their future growth rather than the bank accounts of a few rich individuals.

The \$9 billion a year (probably more and certainly more if China is able to continue growing at the rate it has) comes out of the savings of shareholders, directly or indirectly through their superannuation fund.

Over time, as the RSPT impacts investment decisions and brings competing investment decisions into play, it will push investment and jobs offshore.

The more immediate effect, however, is to diminish the savings and income of existing shareholders. If the RSPT were introduced as it is now constituted, the net present value of many existing mines would be ravaged and sharemarket prices would adjust to reflect that.

Australian shareholders would lose both capital (as a consequence of that one-of adjustment) and the income flowing from it.

BHP has said that its effective tax rate in Australia under the RSPT would be about 55 per cent and Wayne Swan has conceded that some mines would pay the theoretical maximum of 58 per cent.

That is the position of the company. For the local shareholders, to the extent that BHP's earnings (and those of other tax-paying companies like Rio) are distributed, they receive a rebate at the corporate tax rate under the imputation system.

There will be no credits or rebates for the RSPT, which means that the effective tax rate for individuals on resource company income, particularly for those on the top marginal rate, will be significantly higher than the effective tax rate levied on the companies. The effect on personal incomes will be even greater if and when the corporate tax rate is lowered to 28 per cent in 2014-15.

If you impose a tax as substantial as the 40 per cent RSPT on a sector the impact is obvious. It is less profitable, it invests less in the high tax jurisdiction and it is less attractive as an investment destination. Not just for billionaires but for individuals and the institutions investing on their behalf.

If there is class warfare inherent in the debate between the miners and the government, then it is not the clichéd and anachronistic war of the rich on the poor but, given our compulsory superannuation system and the level of participation of individuals in the market, something far more akin to a civil war.

[businessspeculator.com.au](http://businessspeculator.com.au)

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## **BHP Billiton plans to accelerate iron-ore investment in Liberia (Mon, 14<sup>th</sup> Jun)**

**The world's biggest diversified miner BHP Billiton has concluded an iron-ore agreement in Liberia, reportedly worth \$3-billion.** BHP spokesperson Illtud Harri told *Mining Weekly Online* on Monday that the company had concluded a minerals development agreement with the government of Liberia in relation to four major iron-ore leases.

The agreement sets out the legal and fiscal framework to develop the leases including the stabilisation of taxes, duties and other trade terms. The Liberian leases were all proximate to the existing 250-km long rail corridor that runs from the Guinean border to the Liberian coast.

"We are delighted to have reached this agreement with the government of Liberia. Combined with the nearby Nimba deposit in Guinea, these leases have the potential to form the backbone of a world-class cluster of mines around integrated rail and port infrastructure, much in the way the Western Australian iron-ore operations started in the 1960s," said BHP Billiton CEO for ferrous and coal Marcus Randolph.

The group said that it would continue its activities in Liberia with a view to accelerating development.

"The government of Liberia has demonstrated that it is open for business. With the completion of our minerals development agreement, we intend to expedite development of these resources," remarked Randolph.

BHP Billiton's decision to further investment in Africa comes amid a furore over the Australian government's decision to implement a super profits tax of 40% on resource profits.

CEO Marius Kloppers has been critical of the tax, saying that it would negatively affect Australia's competitive advantage as a resources industry, and would curtail investment in that country.

BHP Billiton has been exploring in Liberia since 2005. In January, it entered into preliminary discussions with steel giant ArcelorMittal about potentially combining the two companies' iron-ore interests in Liberia and Guinea into a single joint venture.

Expenditures to date in exploration, studies, and other activities have totalled some \$50-million. Through this work, several potentially substantial orebodies have been identified.

[miningweekly.com](http://miningweekly.com)

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## **Afghan mineral wealth could top \$1-trillion – Pentagon (Mon, 14<sup>th</sup> Jun)**

**Untapped mineral deposits in Afghanistan may be worth more than \$1 trillion, a finding that could reshape the country's economy and help U.S. efforts to bolster the war-battered government, a Pentagon spokesman said on Monday.** Afghanistan has significant deposits of copper, iron ore, gold, mercury, sulfur, chromite, talc-mangeseite and potash as well as sources of fluorspar, beryllium and lithium, among others, a task force studying the country's resources found.

"It's certainly potentially good news, especially for Afghanistan," said Pentagon spokesman Colonel David Lapan. "If we can assist the Afghans in developing these resources, it certainly has the potential for adding a lot to their economy."

Experts caution however that the challenges to exploiting Afghanistan's mineral wealth are huge and could take decades to overcome. The country has little mining infrastructure, is in the midst of a wrenching war and has a reputation for government corruption.

The mineral wealth is scattered throughout the country, including in the south and east along the border with Pakistan, where the Taliban-led insurgency is the most intense.

The extent of Afghanistan's mineral wealth was identified by a task force that included members from the Pentagon, State Department and U.S. Geological Survey working in conjunction with officials from the Afghanistan Ministry of Mines.

It was part of a broader effort to identify the economic potential of Iraq and Afghanistan and help the governments of each country develop relationships with international businesses that could work with them to exploit their resources.

"This really is part and parcel of Gen. (Stanley) McChrystal's counterinsurgency strategy," Lapan said. "This is that whole economic arm that we talk about but gets very little attention."

The Afghan review looked at everything from mineral resources to farm products and manufactured goods like carpets. It was initially carried out in 2006 and 2007, but the task force was focused primarily on Iraq.

With the drawdown of U.S. forces in Iraq, the group has placed a renewed focus on Afghanistan and recently completed a follow-up assessment.

That assessment concluded the scale of Afghanistan's mineral wealth "was much bigger" than initially realized, Lapan said.

An estimate based on mineral prices late last year concluded Afghanistan was sitting on mineral wealth of \$1 trillion, a figure Afghan President Hamid Karzai mentioned at a news conference January 31. Lapan said that figure may be low.

"There's ... an indication that even the trillion dollar figure underestimates what the true potential might be," Lapan told reporters at the Pentagon.

The New York Times reported on Monday that the mineral deposits are so extensive they could transform the impoverished country into one of the world's most important mining centers.

It quoted a Pentagon memo as saying Afghanistan could become the "Saudi Arabia of lithium," a key material in the manufacture of laptop batteries and other electronics such as mobile telephones.

"There is stunning potential here," the newspaper quoted General David Petraeus, commander of the U.S. Central Command, as saying in an interview. "There are lots of ifs, of course, but I think potentially it is hugely significant."

News of the country's untapped wealth is likely to intensify competition among regional players such as China, India and even Russia for a greater role in exploiting those resources.

Two Chinese firms have committed themselves to a \$4 billion investment in the vast Aynak copper mine, south of Kabul, the biggest non-military foreign investment so far in the country.

Another big contract to mine an estimated 1.8 billion tons of high-quality iron ore in the remote mountainous region of Hajigak is expected to open for international bidding this year.

Firms from India and China are eyeing the contract, which the Afghan mines ministry says is the largest unmined iron deposit in Asia.

[miningweekly.com](http://miningweekly.com)

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## Resetting focus to African perspective (Mon, 14<sup>th</sup> Jun)

**Greg Hawkins, chief executive of a soon-to-be FTSE 100 gold miner, has no desk to call his own. He is working out of his corporate lawyers' offices for the time being.** African Barrick Gold is not only new to the blue-chip index, which it will enter this month. It is a new company – a spin-off from Canada's Barrick Gold. It floated in London, where it is now based, only three months ago.

Recognition has come swiftly for a miner that debuted with a multi-billion-dollar market value as the gold price was rising to new heights. African Barrick is now worth more than £2.5bn (\$3.6bn).

But, compared with the standards of the City he has entered, Mr Hawkins is still working out of a suitcase.

A genial Australian, Mr Hawkins seems relaxed about the work of forming African Barrick into an independent public company. That may be because the miner, while it has a new strategy and name, is an old operation. It is run by people such as Mr Hawkins who know the assets from the days when it was a minor unit of Barrick.

African Barrick has four gold mines in Tanzania centred round a deposit called Bulyanhulu. Last year the company produced 716,000 ounces of gold. This exceeds production at either Randgold or Petropavlovsk – two other London-listed gold producers.

The four mines comprised all Barrick's operations in Africa. But Africa was a relative backwater for the parent company, which has retained three-quarters of the new company's shares.

Mr Hawkins acknowledged analysts' comments that the Tanzanian mines received little attention from the Canadian parent.

"It's too harsh to say they weren't loved or weren't looked after," he said. "But things were underdone given the size of the mines. They were undermanaged." He noted the strike at the Bulyanhulu mine in 2007.

"Ideas could be put forward to Barrick and the answer would be 'no', because we were too small," said Mr Hawkins, whose previous job as chief financial officer for Barrick's Australia-Pacific region included oversight of Africa. Leon Esterhuizen, analyst at RBC Capital Markets, noted that the Africa mines were undervalued in a Barrick empire centred on the Americas.

"The strategy now is different," Mr Hawkins said. "It is about growing the business in Africa. It is about giving the operations the focus they needed. Everything will be looked at using an African lens."

That means "recalibrating the criteria" for what makes an attractive project, he said. The company will spend sums on exploration and acquisitions that the parent might have deemed paltry.

African Barrick's attitude to risk will also shift. The company will consider investing in the Democratic Republic of Congo, Mr Hawkins said.

Teams are now looking at projects – and possibly acquisitions – across west Africa and east Africa. A Tanzanian mining company was recently acquired for A\$80m (£46m).

The focus is bringing existing mines up to speed. African Barrick aims to produce 1m gold ounces within the next four years, a target that can be met mostly by organic growth.

"We have been given the keys to the car," he said, smiling. "And we are going to see how fast it runs."

"You have to have a passion for Africa if you are going to work there all the time, because things can be frustrating, especially if you're hitting it new", he said.

The arrival of African Barrick adds heft to gold- and silver-mining stocks on the London exchange when investors are seeking security in precious metals.

The company most resembles Fresnillo, a FTSE 100 silver miner that remains majority-owned by Penoles, its Mexican parent. But Mr Hawkins looks to Randgold, the London-listed miner rated at 45 times this year's expected earnings.

He was asked about one of the enduring oddities of the London market: why Randgold is rated at such a premium to Petropavlovsk at 11.5 times, despite their production profiles being almost identical.

"Randgold commands a high premium but they have earned it," Mr Hawkins said.

"We don't want to come in here and drag Randgold down," Mr Hawkins said. "We want to reach where they are. But we have to prove ourselves."

*(Financial Times)*

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## China nickel pig iron makers cut output, Antaika says (Mon, 14<sup>th</sup> Jun)

**Nickel pig iron makers in China, the world's largest consumer of nickel, have started to idle capacity as prices and demand weaken amid the nation's curbs on property development, according to a state-owned researcher.** Production of the low-cost substitute for the refined metal dropped to between 14,000 and 15,000 metric tons in April from a record 17,000 tons in March, said Xu Aidong, senior nickel analyst at Beijing Antaika Information Development Co. There would be further falls in output in May and this month, Xu said.

About two-thirds of global nickel production is used to make stainless steel, and Antaika's assessment adds to signs that China's drive to prevent a property bubble is helping to hurt demand for commodities used in construction. Refined-nickel futures in London have tumbled into a bear market since April.

"Output of nickel pig iron will fall further in May and June as demand from the stainless-steel industry weakens," Xu said on June 11. "We often schedule visits to plants and have been told by some producers not to go because they have either suspended output or are carrying out their annual maintenance."

Nickel futures on the London Metal Exchange slumped 29 percent from a 23-month high of \$27,595 a ton on April 16 to the close on June 11, hurt by China's property moves and Europe's debt crisis. The contract traded today at \$19,655 a ton at 11:05 a.m. in Singapore. A bear market is typically defined as a fall of at least 20 percent in an asset or market.

'All in Agreement'

Some stainless-steel mills in China have already started cutting production after a slump in prices, according to Wang Chongfeng, a Shanghai Metals Market analyst. "We're all in agreement that output in May and June will be lower," said Wang, referring to the nation's production of nickel pig iron. Output was a record 20,000 tons in April, Wang estimated.

Besides industry-specific measures such as requirements for larger down-payments for some homes, the government on May 2 raised banks' reserve requirements for the third time this year to contain overheating risks. Zinc smelters in China have idled as much as 8.8 percent of capacity amid the property curbs, Shanghai Metals Market said earlier this month.

Baoshan Iron & Steel Co. is "not very optimistic" that stainless-steel consumption growth in China will match last year, China's second-biggest stainless steelmaker said May 26.

China's stainless-steel output was 2.8 million tons in the first quarter, according to Antaika, 27 percent more than in the same period in 2009 and 36 percent more than in 2008.

'Very High Output'

"Stainless-steel production will moderate in the second half, following very high output in the first, which was matched by record nickel pig iron production," said Wang Xiaoli, an analyst at Citic Futures Co. "The slow-demand season in June and July for stainless steel and nickel will continue to put downward pressure on prices of both materials."

The price of the widely-used type 304 stainless-steel sheet in Shanghai dropped 10 percent in May, according to data from Metal Bulletin, an industry publication. It reached \$3,282.50 a ton at the end of April, a level not seen since 2008.

Refined-nickel output in China grew 26 percent to 17,300 tons in May from a year ago, the National Bureau of Statistics said on June 11. That's 58 percent higher than in May 2008.

"Refined producers are unlikely to cut production as they tend to be big enterprises that have the ability to withstand the price decline," Antaika's Xu said.

*(Bloomberg)*

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## GFMS sees little fresh hedging, 3Moz dehedging this year (Fri, 11<sup>th</sup> Jun)

**Metals consultancy GFMS expects gold dehedging to reach around three-million ounces in 2010, and does not expect much in the way of new hedges, other than by companies required to sell metal forward in order to secure project finance.** "The rate of net producer dehedging slowed in the first quarter of 2010, with only 0.78-million ounces removed from the global hedge book," GFMS said in a report published on Friday.

But this still represented a 10% cut to the delta-adjusted global hedge book, which stood at 6.75 -million ounces at the end of March, less than 7% of the peak seen in 1999, when the hedge book was just under 100-million ounces in size.

Kinross Gold was the largest dehedger during the quarter, while Adamus Resources made the only notable hedge, amounting to 0.29-million ounces of forward sales to fund the Nzema gold project in Ghana.

"The continuing diminution of the volume of the hedge book continues, as does the population of producers that hold hedge positions," GFMS commented.

"Attitudes towards producer hedging have not changed in the first quarter, and while we have seen some strategic price risk management through the use of options, the bulk of fresh hedging activity remains for project finance purposes," the consultancy added.

It also pointed out that alternative options for project financing like metal streaming agreements means more companies can avoid the need for fresh hedging to fund projects.

"Although little activity either way has been confirmed so far in the second quarter, we strongly believe that during the remainder of 2010 we will see deliveries into hedge contracts in excess of what the delivery profile suggests, as the holders of the largest hedge books move to incrementally cut their positions.

"We remain of the opinion, however, that dehedging in 2010 will be much reduced from that seen in 2009."

## MINE SUPPLY

Gold mine supply increased during the first quarter of 2010, according to GFMS figures, breaching 600 t for the first time since the first quarter of 2003.

The biggest year-on-year increases came from Argentina, Australia and Ghana, while the biggest losses were seen in South Africa and Russia.

Gold was trading at around \$1 217,92/oz on Thursday afternoon. Prices fell for a second day as the euro strengthened and investors appetite for the metal's safe haven characteristics eased.

[miningweekly.com](http://miningweekly.com)

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## Bassari extends zone in Senegal (Fri, 11<sup>th</sup> Jun)

**West African gold explorer Bassari Resources has defined a coherent and high-grade lode system in the eastern part of its Makabingui prospect in Senegal.** Reverse circulation drilling has confirmed the strike extent of Zone 1 exceeds 600m with a result of 7m at 4.7 grams per tonne gold from 74m depth.

It backs up earlier hits of 1m at 9.1gpt from surface, 10m at 2.7gpt from 6m, 2m at 7.6gpt from 6m, 5m at 7.6gpt from 20m including 1m at 26.6gpt from 29m, and 4m at 4.3gpt from 29m including 1m at 11.9gpt from 30m, to name a few.

The prospect is one of two targets within the company's Sambarabougou permit. Bassari also has permits at Moura and Bounsankoba in Senegal.

To date drilling has confirmed a large gold mineralised system over an area of some 800m by 1400m which remains open at depth.

Copper values have also been noted in the form of chalcopyrite.

In all, six zones have been defined on the property based on previous rotary air-blast drilling, ranging in size from 5m width and 300m strike to more than 125m width and 800m strike.

To date, Bassari has drilled infill lines at 100m spacing on Zone 1, which is the most eastern zone.

Geological modelling indicates a large area of extensional veins and stockworks developed within a diorite (earlier stage) porphyry and surrounding metamorphosed sediments.

The zone's structural setting is believed to be related to a major north-northeast trending and west-dipping thrust zone. The eastern side of the main thrust appears to be located in the Makabingui Creek area to the east of the porphyry.

The company is reviewing all options to accelerate drilling at Makabingui.

[miningnews.net.au](http://miningnews.net.au)

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## Silver - "the Devil's metal - like gold on crack" (Thurs, 10<sup>th</sup> Jun)

**Top HSBC metals trader John Levin on his love-hate relationship with silver in his day to day business and some fascinating insights into the current views of major asset managers.** In opening his presentation to the FT's first Silver Conference, held at the London Stock Exchange yesterday, HSBC's Managing Director of Global Metals and Trading, John Levin, apologised for just being a trader - not an analyst - and proceeded to give some fascinating insights of views on silver trading from the sharp end. He started by describing silver as "the Devil's metal" as far as a trader is concerned based on how difficult it is to trade poor man's gold in normal market conditions. But then in an answer to a question at the end he described silver as "like gold on crack" which was primarily a reference to the volatility which can be seen in the silver price, and a reflection on the attitudes of many silver investors.

When he started trading silver, Levin said it was referred to as the \$5 commodity in the markets - when it fell to \$4 it was too cheap and when it reached \$6 was too expensive - and it sat at around the \$5 level for many years, before starting to take off alongside the rising gold price around 10 years ago. Since then he says he has had a love-hate relationship with the metal because of the difficulty in trading it - but recently HSBC has seen big investment positions being taken in precious metals.

After the huge crash in the silver price in 2008 due to deleveraging and de-stocking, which brought the price down from over \$20 to below \$9, the bank started seeing a pick up at the end of that year due to very strong buying from India in particular - indeed HSBC shipped over 2,000 tonnes of silver to India in the space of 2 months and needed to charter special aeroplanes to do so!

Overall, Levin reckons the silver ETFs have been to an extent the saviour of the metal price over the past year and have been a large contributor to growth - and what's more he feels that the ETF holdings are "sticky money". The holdings have been tested in some pretty severe price regimes but have held up well. In Europe in particular his conversations with asset managers in Switzerland and Germany suggest continuing worries about wealth preservation. One major Swiss asset manager, for example, told him that the average age of his clients was 62 and that they were only interested in insuring against a big downturn in markets in general and that silver and gold in particular had been gaining legitimacy and were now a key part of their investment strategy. "People are really worried about their money" he said.

He also said asset managers are surprised there hasn't yet been more emphasis on internal economic problems in the U.S. A lot of the recent market movement has been related to Eurozone debt problems, but with the Greek economy, the recent main focus of the worries, smaller than that of many U.S. states, financial problems with the latter should not be ignored. We have already commented in these pages about U.S. asset managers' fears about possible confiscation of precious metals by the state - see U.S. asset managers worried Obama could confiscate gold - but the fears go much deeper than that and are similar to those of the Europeans in terms of wealth preservation in the face of extreme nervousness about the direction of markets. Overall, Levin feels that those controlling the wealth see no end to the global economic crisis soon.

Overall though inflation does not scare the financial sector for the moment. The outlook is seen as benign in this respect. Deflation is seen as more of a risk and precious metals have, historically, performed well in a deflationary environment too - again in terms of preserving wealth.

Regarding Central Banks and silver, Levin reckons their interest in holding silver is zero, although the appetite for gold is probably somewhat different. In terms of Central Bank silver holdings, these have declined over the years to the extent they are almost gone.

Levin observes that the universe of people interested in silver is continuing to grow, despite its perceived, and actual, volatility and big

investment positions are being taken in both gold and silver. Overall this probably bodes well for silver as long as financial fear continues to stalk the markets.

What was fascinating about Levin's presentation was that rather than analysis of trends and possible future scenarios built by analysts, who often let their own inbuilt opinions and prejudices colour their analyses, this was a presentation from the trading floor, expressing the day to day views of people trading in the real world. Refreshing!

[mineweb.com](http://mineweb.com)

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## Baffinland mulls road haulage to start production earlier (Thurs, 10<sup>th</sup> Jun)

**Canada's Baffinland Iron Mines is reviewing an option to haul ore by road, which could result in early stage iron-ore production from its Mary River project, in Nunavut, while the firm works on getting port and rail infrastructure in place.** Baffinland completed a definitive feasibility study in 2008 on a project to develop the Steensby Inlet port and rail project for an 18-million-ton a year operation.

The firm is looking at road haulage along the 99-km Milne Inlet tote road, and shipping using market vessels during a 90-day or so open water season in Milne Inlet, it said on Thursday.

"Achieving early stage production through this road haulage option would enhance value for Baffinland's shareholders, achieve cash flow during a period when iron-ore prices are forecast to continue to be high and strengthen our efforts to achieve the full development of the rail project," said vice-chairperson Daniella Dimitrov.

The company may mine and ship at a rate of between two and five million tons a year of lump and fine iron-ore, with an estimated optimised production rate of some three-million tons a year.

Production will probably be 75% high-quality iron-ore and 25% premium quality fine iron-ore.

Baffinland also plans to accelerate completion of its draft environmental-impact statement this year, and is aiming to complete the full environmental-assessment and permitting process by late 2012 or early 2013, the company said.

[miningweekly.com](http://miningweekly.com)

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## Azumah proves that Australian miners can raise fresh funds, if they're exploring in Africa (Thurs, 10<sup>th</sup> Jun)

**Raising money for an Australian gold mining project is a heavy lift these days thanks to uncertainty over the country's tax regime.** But for Australian goldminers working just about anywhere else in the world it's a dream, or as Stephen Stone puts it: "the planets are aligned". His optimism is easy to understand. The gold price is high, investors are supportive, the banks are keen on gold, and the company Stephen runs, Azumah Resources, has just clocked up its first million ounces of resource. Next step is to go mining, a process Stephen reckons will start next year, with first gold from the Wa project being poured before the end of 2011. If he hits that target it will represent a fabulous recovery story by Azumah, which suffered a difficult birth, and serve as another example of "the one that got away" from Australian investors.

Why Australians discount their own stocks when they work far from home is somewhat of a mystery. One explanation is that over the past 100 years there have been plenty of opportunities "just up the road", so why send your money to risky far-away places. Talk about the worm turning. For the first time in its mining history Australia is now high on the sovereign-rich list, and top of the pops if you believe Rio Tinto and BHP Billiton which face the heaviest hit of all from the proposed 40 per cent super-tax slug proposed by the Australian Government.

Stephen, through good timing and a dash of good luck, has landed the job of guiding Azumah away from its starting point as a close associate of the failed Croesus Mining, into a role as one of the leading explorers and mine developers in north-west Ghana. Until recently, this was a place barely registering on the world gold map. (Come on Oz, Ghana used to be called the Gold Coast for a reason Ed!) That's certainly changing as a number of projects move into their development phase, including fellow Aussie-in-exile, Ampella Mining, which has the promising Batie West project almost directly across the Black Volta river which forms the border between Ghana and Burkina Faso – while a little further away there are exploration and development projects operated by other Australians in the region including Perseus, Adamus, Resolute, Gryphon and Castle.

Before looking at the latest news from Azumah, including first results from a massive 100,000 metre drilling program which should lead to a substantial increase in the company's already impressive 1.1 million ounce gold resource, it is worth comparing the company with its peer group of Aussies in West Africa. According to a presentation given by Stephen at a mining conference in Perth earlier this month Azumah has an enterprise value of US\$58 an ounce which is was "well below industry benchmarks". Other companies are trading closer to US\$100/ounce, and in the case of Ampella, closer to US\$200/oz, while the newest player in the region, Castle, is priced at a whopping US\$344/oz.

It is always tricky to make direct comparisons when valuing gold projects because there are so many variables, but on an enterprise value per ounce basis Stephen has a very strong point to make, and while he has to be wary in using the word "undervalued" it is there for anyone to see, especially as Azumah is well on track to hit its next target -- 2 million ounces of gold resource. The boost will come as ongoing and future exploration results are taken into account. With the expected resource boost will come the beneficial effect of an ongoing feasibility study, and the planned production start-up which is little more than 18 months away. In other words, Azumah is entering a high news generation phase just as the gold price continues its strong upward run. Planets aligned, indeed.

There are several keys to understanding Azumah. First is its existing resource base, which is already sufficient to support a start-up operation producing 70,000 ounces of gold a year, rising to 100,000 ounces a year. This can be achieved at an estimated capital cost of around US\$80 million, and yield gold at around US\$525/oz. The second key is that first gold is not far off and expected to come from the development of the Kunche and Bepkong orebodies with the mine plan envisaging a process of "cherry picking" high grade, near-surface, ore grading between 3-and-5 grams a tonne to generate high levels of early cash flow. The third key is that there is nothing complicated about the mine or process plan with the preferred route a simple gravity and carbon-in-leach circuit with up to 30 per cent of the gold recovered in the gravity phase and a total of 95 per cent of the oxide gold recovered, and 90 per cent of the gold in the primary ore.

Interesting, and as highly profitable as that start-up plan is, there is much more to come from Azumah as it steps up its exploration work along 150 kilometres of the high-value Birimian greenstone which yields most of Ghana's gold. Stephen reckons that exploration so far has covered just 10 per cent of Azumah's tenement position meaning that the company has "an extensive pipeline of drill-ready targets, and more targets being uncovered by geophysical surveys".

A glimpse of what lies ahead for Azumah shareholders is contained in the interim 350,100 ounces resource identified at the Julie prospect to the east of the main Kunche/Bepkong discovery trend. It was this resource which lifted Azumah above the one million ounce resource mark. Then there is the potential for much more gold to be discovered from multiple targets, starting with the Collette prospect, and across to nearby targets such as Josephine and Kjersti.

News flow from Azumah over the next few months includes the release of assays from freshly identified north-south trending veins at the Julie and Collette prospects. Aircore drilling results from across the tenement block. The release of that data will be complemented by a maiden resource for Collette in the next few weeks, and ongoing news from the feasibility study which is scheduled to be complete by the end of the year, by which time Azumah will be more than ready to announce firm mine-development details.

[minesite.com](http://minesite.com)

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## Perseus gets go-ahead for new gold mine in Ghana (Thurs, 10<sup>th</sup> Jun)

**ASX-listed Perseus Mining has been given the green light for the development of its flagship Central Ashanti gold project, in Ghana, with the environmental protection agency (EPA) issuing a construction and mining permit.** The mining lease and other permits that were required to start construction were already in place, Perseus said in a statement on Thursday.

"Now that the EPA approval is in hand, it's all systems go at the Central Ashanti gold project," said MD **Mark Calderwood**.

Calderwood added that the company was targeting its first gold pour in the third quarter of 2011. Production would average around 220 000 oz/y for the first four years.

Central Ashanti gold project has reserves of 2,1-million ounces of gold, as well as a 1,2-million ounce measured and indicated gold resource and a 2,7-million ounce inferred gold resource.

Meanwhile, Perseus has accepted a credit committee approved letter of offer from equity providers Macquarie Bank and Credit Suisse to jointly provide a loan facility of up to \$85-million and a gold hedging facility for the Central Ashanti project.

Perseus planned to initially limit the hedging to the minimum required by banks, which was 170 000 oz of gold if \$65-million of the project loan facility is used, or 230 000 oz of gold if the full \$85-million is used.

"We are not expecting to draw more than \$65-million of the Central Ashanti project loan facility unless funds held are required to fast-track the Sissingue project, in the Ivory Coast," said Calderwood.

He added that the A\$140-million raised in recent equity issues and the project financing ensure that the Central Ashanti project is fully funded while the company is able to maintain its exploration effort and fast-track development of the Sissingue project.

[miningweekly.com](http://miningweekly.com)

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## Record high for Mali gold mining (Thurs, 10<sup>th</sup> Jun)

**Bamako, Mali - Gold mining will contribute a record high of 166 billion CFA francs ((US\$302 million) to Mali's budget this year, up from 130 billion francs (US\$240 million) in 2009.** Announcing this here, the West African country's president Amadou Toumani Toure pointed out to reporters that various other projects for the exploitation of other commodities were in the pipeline as well.

Mali – the continent's third biggest gold producer after South Africa and Ghana – is trying to develop its mining industry to take advantage of high metals prices on world markets. The country's annual government income is estimated around US\$1.5 billion (R11.25 billion). It is also due to become Africa's newest iron ore producer this year, when India's Sahara Mining starts output at the Tienfala project.

"There have been discoveries of iron ore whose exploitation will begin with a large Indian company," said the president. He added that firms were working on oil projects, but could give no details of when production might begin.

Gold has overtaken cotton as Mali's primary export earner.

[miningreview.com](http://miningreview.com)

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## Mozambique-focused Ncondezi lists in London (Thurs, 10<sup>th</sup> Jun)

**Mozambican coal company Ncondezi on Thursday successfully listed on the Aim, starting out with a market capitalisation of £146,6-million.** The company had placed just under 29-million shares at £1,23 a share to raise about £35,6-million, which it was planning to use for the further development of its Ncondezi project, in the Tete province of western Mozambique.

The company's share price rose to a high of £1,31 a share during early morning trade.

"We are delighted that the company's shares commenced trading on Aim. The company's main objective is to upgrade and extend the existing [Joint Ore Reserve Committee- (Jorc-) compliant] resource and to complete a fast-track bankable feasibility study (BFS) on the Ncondezi project," CEO Graham Mascall commented in a statement.

The Ncondezi project, which comprised two of the four prospecting and exploration licences held by the company, was expected to produce ten-million tons a year of export quality thermal coal as from the second half of 2014.

The proposed openpit mine, which had a Jorc-compliant resource of 1,8-billion tons of coal, had an estimated 37-year mine life.

The company was hoping to fast-track the BFS for the project, which it expected to be completed by the second half of 2012.

It would also undertake further exploration work to upgrade the project's existing resource, as well as to assess the potential of coking coal production.

[miningweekly.com](http://miningweekly.com)

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## Transnet sticks to coal export target (Thurs, 10<sup>th</sup> Jun)

**Transnet Freight Rail (TFR) will still rail 65mt of coal to the Richards Bay Coal Terminal (RBCT) this year despite the impact of the three week strike.** Transnet acting CEO Chris Wells said on Thursday, following the presentation of the parastatal's results for the year to end-March that he believed railages may even beat the 65mt target.

The commitment to rail 65mt was made by Transnet GM Divyesh Kalan in January when he told the McCloskey SA Coal Exports conference that Transnet had guaranteed to rail that volume of coal to the RBCT during 2010.

The RBCT indicated on May 27 that it seemed unlikely the terminal would export 65mt as planned this year because of the strike.

Wells said that, while TFR's performance on coal volumes had been disappointing in the year to end-March it had managed to lift volumes 6% during the last quarter and had maintained those higher levels in the first quarter of the current year.

"We are determined to move coal railings onto a growth trend and are confident we are able to do so. We have the capacity currently to deliver in the high 60's and we are determined to get there as soon as possible," he commented.

Wells highlighted the delivery of new and refurbished locomotives and wagons onto the TFR system during the year to end-March in which six new locos were put on the coal line along with 592 new wagons.

In addition another 50 new locomotives were added to the general freight business fleet and three more onto the iron ore line.

"This is the first time in more than a decade you have seen this kind of investment in infrastructure and assets by Transnet," Wells pointed out.

Transnet's current budget calls for some R15.4bn to be spent on increasing capacity on the Richards Bay line to 81mt/year by 2014/15.

Wells commented that investment is conditional on Transnet signing suitable "take or pay" contracts with the coal mining companies for those planned export volumes.

That has been a serious sticking point since March 2005 when the previous long-term tariff contract between TFR and the coal exporters expired.

Since then coal has been railed on the basis of a series of short-term contracts which have been renewed annually with individual exporters.

The previous long-term contract was a multi-year agreement struck with the industry through the RBCT.

Wells confirmed that Transnet was currently in negotiations with individual coal exporters to reach "take or pay" contracts on the back of which Transnet would increase capacity to 81mt/year.

"We have commitment in principle from a number of exporters but I cannot provide specifics at this stage."

Wells said Transnet's balance sheet would not be able to cope with the expansion of the Richards Bay line above 81mt/year and the iron ore line above 60mt/year meaning private sector participation would be required.

He commented Transnet was still in the process of determining "the right business decision" to be taken on expansion of the Sishen/Saldanha line above 60mt/year.

He indicated there were a number of issues complicating this development phase which could involve shifting manganese ore exports from Port Elizabeth to Saldanha Bay.

The expansion would also require a political decision on public/private participation deals involving state-owned assets.

"The mining companies are unanimous in that they would like manganese exports shifted to the Sishen/Saldanha line.

"The Port Elizabeth city authorities want the export of manganese from Port Elizabeth harbour stopped but they want this business to be moved to the port of Coega in the Eastern Cape and not Saldanha.

"Clearly, there are vested interests involved but the right business decision has to be taken. The situation should become clearer during the calendar year.

"It's also clear that in South Africa there's a division between those who do not want national assets privatised and those who believe they should be privatised.

"We need to have the correct governance in place for this process with the Transnet board and the shareholder (government).

"The principles have been agreed with the board and have been shared with the shareholder."

One aspect about any public/private deal struck on the Sishen/Saldanha line that has been stressed by Kumba Iron Ore CEO Chris Griffith is that the mining companies want to have a say in the running of the line.

He said in April he believed the line could be run better with private sector participation and commented "a new spirit of co-operation" had been reached with Transnet in discussions over the expansion of the line.

But Wells commented today that, "we do not want to give up the operating autonomy that we have on the line."

[miningmx.com](http://miningmx.com)

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## Tonkolili on schedule to start production in 2011 – African Minerals (Thurs, 10<sup>th</sup> Jun)

**Exploration and development company African Minerals said on Thursday that its flagship Tonkolili project in Sierra Leone was on schedule to start production and shipping of eight-million tons a year of haematite from the first quarter of 2011.** Chairperson Frank Timis said that African Minerals had also embarked on the expansion of the project's drilling programme to define additional haematite mineralisation.

"This provides the company with the potential opportunity to self-fund its growth from eight-million tons a year of haematite product to 25-

million tons a year of high-grade magnetite product."

The increase in production capacity is subject to an engineering study covering process engineering, the extension of the railway from Lunsar to Tonkolili and the construction of a berth at Tagrin point.

Timis noted that the timeline for the expansion to phase two, or 25-million tons a year, would be ascertained following the results of the engineering study, scheduled for delivery in the fourth quarter of 2010.

African Minerals estimated that, subject to the results of further drilling and metallurgical test work, Tonkolili had the potential to host up to 1.4-billion tons of on-site haematite material. "We expect to realise this target with an aggressive drilling campaign which will run through until the end of the year," said Timis.

As a result of the planned early production of the haematite product, the start of phase three, which included the delivery of 45-million tons a year of magnetite product, was pushed out until after 2014.

The company had internally estimated that phase two would cost in the region of \$1-billion and phase three may cost up to \$4-billion, with the total production at the end of phase three being 70-million tons a year.

However, exact cost estimates of the phases still needed to be determined under studies. Timis said that, conceptually, a phase four of the project could exist, but added that work to establish a fourth phase still needed to be undertaken.

[miningweekly.com](http://miningweekly.com)

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## Mungana Goldmines stockmarket debut marred by mine tax uncertainty (Thurs, 10<sup>th</sup> Jun)

**MARKET debutant Mungana Goldmines, the latest to test the market's recent volatility, opened slightly below its issue price before swinging lower despite the broader market's 1 per cent gain.** Mungana, a spin-off from Perth zinc miner Kagara, opened just shy of its 95 cents issue price at 94c before falling to a low of 90c.

The company was originally slated to list on June 2, but sources dismissed the recent market volatility for the delay, putting it down to pesky paperwork.

Mungana failed to raise the full \$76 million from its initial public offering after institutions took up just \$3.5m of a possible \$23m, with Mungana and its lead manager Southern Cross Equities eventually settling for \$56.5m.

Macquarie was a broker to the offer.

But there wasn't a lot to go around, with Kagara retaining a 49 per cent interest in Mungana, and just over 50 per cent of the 80m shares in the IPO first being offered to Kagara shareholders.

Mungana did get the support of Kagara's largest holder -- China's Guangdong Foreign Trade Group -- and Prosperity Steel United Singapore which will hold 16 per cent and 8.3 per cent respectively.

Sources said instos liked the Mungana story but were "spooked" by Rudd's proposed tax grab in the form of the resource super-profits tax.

Kagara hasn't held back, blaming the tax for the massive slide in the Aussie dollar, but which has inadvertently lifted the gold price in local currency terms to near record highs.

Kagara will get \$6.5m for from the IPO for its troubles.

Mungana said today it would use the cash to start drilling programs at its flagship Mungana and Red Dome gold projects in Queensland in the next two weeks.

[theaustralian.news.com.au](http://theaustralian.news.com.au)

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## Ex-Rio chief joins Brockman Resources (Thurs, 10<sup>th</sup> Jun)

**Emerging Pilbara iron ore play Brockman Resources has secured the services of former Rio Tinto Australia managing director Barry Cusack as it looks to the next phase in the development of its flagship asset, the Marillana iron ore project.** The mining veteran has been appointed non-executive chairman, with founding chairman Ross Norgard to assume the role of deputy chairman.

Norgard said Cusack joins Brockman at a critical time in the company's evolution as it moves into the development and financing phase of Marillana.

"His experience in the Australian iron ore sector, including in the funding, development and operation of major projects, will be invaluable to Brockman as we move to the next level of our corporate development," he said.

"Barry's experience, input and counsel will be invaluable in many of these key areas, including the key issues of infrastructure access in the Pilbara and the challenges posed by the recently announced resource super-profits tax.

Brockman last month confirmed Chinese steel giant Sinosteel hadn't cooled on its April sales agreement that could be worth more than \$6 billion, with the partnership remaining on track despite the proposed resource super-profits tax.

Cusack held a number of key roles at Rio, including managing director of HiSmelt Corporation in the early 1990s, managing director of operations with Hamersley Iron from 1993 to 1997 and finally MD of Rio Australia until 2001.

He has also held a string of high profile board positions, including as chairman of Coal and Allied Industries, chairman of Energy Resources Australia and chairman of OZ Minerals.

Cusack's other responsibilities today include deputy chairman of Macmahon Holdings and as a non-executive director of Toll Holdings.

He is also a past president of the Minerals Council of Australia and the WA Chamber of Minerals and Energy.

[theaustralian.news.com.au](http://theaustralian.news.com.au)

## Highlighted Research:

### Kirkland Lake Gold - Drilling Extends SMC 340 Feet East (Tues, 15<sup>th</sup> Jun)

**News:** Kirkland Lake Gold ("Kirkland") has released results from underground drilling that has extended the South Mine Complex (SMC) 340 feet (104 metres) east of the previously known limits.

The SMC represents a group of highly mineralised zones (now 25 or more) that are situated within the Company's Macassa property in Kirkland Lake, Ontario, to the south and south-east of the historic 'Main Break' mining area. Some of these zones are now in production with others being explored and developed.

The press release has full details of all 16 holes reported today which include some results from the hangingwall and footwall intersections. However the most significant results are from the New South Zone and highlights include:

Hole #	Grade (oz/t)		Intersection (True Width)	
	oz/t	g/t	Feet	Metres
50-1242	6.24	214.0	3.0	0.9
50-1153	0.77	26.4	5.5	1.7
53-1504	1.70	58.3	6.4	2.0
53-1561	1.12	38.4	5.1	1.6
53-1562	2.39	81.9	9.8	3.0
53-1563	0.99	33.9	7.4	2.3

The Company will be increasing exploration drilling from 8 to 14 shifts per week upon completion of the new dry facility starting in July.

**Analysis:** Today's drilling results are the most substantive that Kirkland has produced for a while and noting the intention to increase exploration drilling significantly in July when the new dry facility is completed (essentially a shower block and changing room for an underground mine), we expect more success with the drill bit in the second half of the year.

Recent exploration work on the SMC has been focused on extending the New South Zone to the east, and today's results have demonstrated significant mineralisation across a ~400 feet by 400 feet (120m by 120m) area shown on Exhibit 2 by the dashed blue box. If we assume that this covers a depth of mineralisation of 1.5m then this could contain approximately 50koz of gold.

Having recently re-visited the mine, we have been very impressed with the progress of the mine expansion and the change in operation from the old workings to the new SMC. We will provide investors with greater insight into the current operations, the Phase 1 and Phase 2 expansion programmes and the exploration potential of the Kirkland Lake camp in due course.

#### Production Predictions:

In anticipation of the release of full year production figures which we are now expecting (along with the full year financial report) in early July, we have outlined below our production expectation for the quarter of 15.7 - 20.7koz Au to get to the Company target of 45-50koz Au:

		FY 1Q'10	FY 2Q'10	FY 3Q'10	YTD	Ergo 4Q'10	Ergo 4Q'10
		end Jul'09	end Oct'09	end Jan'10	end Jan'10	end Apr'10	end Apr'10
Ore mined - SMC	oz/t	25,303	4,230	7,758	37,291	TO GET TO	TO GET TO
Head grade - SMC ore	koz	0.40	0.30	0.51	0.41	45koz:	50koz:
Gold contained - SMC ore	koz	10,121	1,269	3,918	15,308		
Ore mined - MB	kt	27,480	14,485	16,430	58,395		
Head grade - MB ore	oz/t	0.25	0.20	0.28	0.25		
Gold contained - MB ore	koz	6,870	2,897	4,568	14,335		
Total ore milled	kt	52,783	18,715	24,188	95,686	53,633	70,677
Head grade	oz/t	0.32	0.21	0.35	0.31	0.31	0.31
Gold contained	koz	16,891	4,166	8,490	29,547	16,561	21,824
Recovery	%	101%	94%	97%	99%	95%	95%
Gold production	oz	17,135	3,911	8,221	29,267	15,733	20,733
Gold sales	oz	20,994	6,612	5,803	33,409	15,733	20,733

#### RELATED RESEARCH:

**Kirkland Lake Gold: 3rd Quarter Results (end Jan 2010) & Operational Update (Mon, 15<sup>th</sup> Mar)**

**Kirkland Lake Gold - New Aggressive SMC Drilling Campaign Yields Superb Results (Jan 12<sup>th</sup> 2010)**

**Kirkland Lake Gold: Quarterly Results and Operational Update (Dec 15<sup>th</sup>)**

**Kirkland Lake Gold: Operational Update (Nov 5<sup>th</sup>)**

**Kirkland Lake Gold: Operational Update – Financial Results Q1 2009 (Sept 15<sup>th</sup>)**

**Chromex Mining plc - Research Update: First step change in cash flow expected in the next 6 months with next leg of growth also to become evident (Weds, 9<sup>th</sup> Jun)**

**Source of the Opportunity:** Chromex is an AIM listed, pure play chrome producer whose operations have largely just washed their face over the last ~18 months. Chrome prices have now improved and the Company is set to achieve a step change in profitability and cash flow in the next 6 months as operations more than double saleable product and current product mix/margins expand.

In our view Chromex is a unique growth story which offers attractive leverage to stainless steel growth in China – world stainless steel production is forecast to increase by up to +25% yoy in 2010. Current production is generating ~US\$4.6m in annualised attributable operating cash flow (pre-capex/post BEE partner) but a step change in operations is expected to take place by year end. At current prices we believe Chromex will generate cash flow of ~US\$12mpa from Dec'10 and the Company is trading at ~2x cash flow; a 20% increase in chrome prices results in a ~90% increase in cash flow and a valuation of ~1x cash flow.

The Company's strong balance sheet is expected to be more than sufficient to fund both initial and further growth opportunities including: its portfolio of South African assets; the development of its recently acquired Zimbabwe assets; and, support Chromex being potentially a consolidator of other regional opportunities.

In the upcoming 6 months the next leg of the Company's growth strategy is expected to become evident. The Company's current production base has the potential to increase five-fold over the next 2½ years as saleable chrome production increases to 50,000t with a material improvement in product mix and margins. With this scale of operations we would expect to see a major re-rating, as Chromex's cash flow attracts a higher multiple and the Company appeals to a broader investor community.

**Investment Thesis** . . . Chromex is fully funded for its multi-stage development strategy. An initial step change in cash flow and profitability is expected to come from the expansion of production from existing operations in the next 6 months providing attractive leverage to a potentially improving chrome price. Even assuming a more bearish pricing/rand environment Chromex is well positioned to tackle the current macro uncertainties as it enjoys: a flexible business model; limited overhead costs; first quartile operating costs; and operations that are currently cash flow positive ahead of its margin expansion and growth programmes.

Greater visibility on further improvements to cash flow and profitability is expected to become evident in the next 6 months as the Company outlines its dual volume growth and product mix strategy in the medium term. The potential recoveries of PGMs and gold from tailings at the existing Stellite chrome mine, as well as the development of operations at the recently acquired Zimbabwean projects are expected to provide the next leg of the Company's growth.

In our view Chromex offers investors the greatest level of direct exposure to the Chinese stainless steel market amongst its listed peers who are generally integrated chrome/ferrochrome producers or larger diversified miners.

**. . . driven by a favourable chrome market outlook:** Chrome is a key input for stainless steel and China now accounts for ~37% of the global stainless steel market (expected to be ~50% by 2020). Stainless steel has been one of the fastest growing metals in the last 30 years despite still only being ~2% of all steel production. The average growth rate for global demand for stainless steel is expected to exceed 5%pa over the next decade with Chinese demand, Chromex's end market, forecast to grow at ~10%pa over this period.

The fundamental outlook for chrome is relatively favourable because, unlike nickel, ferrochrome can not be substituted in stainless steel production and demand is likely to be supported by the secular trend to ferritic stainless steel (containing chrome). The emergence of a primary chrome export market, driven by Asian demand for chrome products rather than ferrochrome, has changed the upstream stainless steel market. In our view chrome pricing and demand look set to become further decoupled from ferrochrome in the near to medium term, driven by Chinese ferrochrome production capacity.

We believe there is a strong medium/longer term fundamental case for chrome: Demand growth from emerging markets, led by China (and India in the medium term), due to increased stainless steel and ferrochrome production; while Supply continues to be restricted with the majority of production controlled by a handful of significant scale integrated chrome/ferrochrome producers with structural barriers to entry and inefficiencies within key markets.

**Key Events / Newsflow:** We expect Company specific news flow in the next 6 months to be extremely positive for Chromex as it begins to capitalise on the improved chrome price, expand its production profile, expand its product mix/margins, outlines its growth strategy for PGM and gold production from existing operations, commits to the development of its low capex/opex projects in Zimbabwe and begins to again promote the Company with a European/Asian road shows expected to commence shortly. The Company remains comfortably funded for its ongoing activities in both South Africa and Zimbabwe.

#### RELATED RESEARCH

**Chromex Mining plc: Company Update - New appointments support the shift from contractor to in-house business model (Mon, 17<sup>th</sup> May)**

**Chromex Mining plc: Company Update - Acquisition of Waylox Mining (Pvt) Ltd (Mon, 10<sup>th</sup> May)**

**Chromex Mining plc: Company Update - Production at Stellite recommences (Weds, 10<sup>th</sup> Feb)**

**Chromex Mining plc: Ready to deliver more to the chrome market in 2010 (18<sup>th</sup> Jan'10)**

**Chromex Mining plc: Interim results for the half ended Mar'09 (3<sup>rd</sup> Jun'09)**

**Chromex Mining plc: Fully funded, cash flow positive chrome producer (12<sup>th</sup> Jan'09)**

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#### Northland Resources: 1mtpa Offtake Agreement signed with Stemcor (Thurs, 3<sup>rd</sup> Jun)

**News:** Northland Resources Inc ("Northland") has announced that it has entered into a binding Offtake Agreement with Stemcor for the deliveries of 1 million tonnes of iron concentrate per year from the Kaunisvaara Iron Project.

The Offtake Agreement is for an initial eight-year period, with the first delivery of iron concentrate from the Kaunisvaara Project planned for 2H 2012. The iron concentrate will be sold primarily to the European market, but Stemcor may also sell to selected global customers.

In addition to the Offtake Agreement, the parties have also signed a Letter of Intent, whereby Stemcor intends to commit USD 50 million of working capital to finance the Kaunisvaara Project.

**Analysis:** While the terms of the offtake agreement have not been disclosed, the signing of the first offtake agreement for Northland's Kaunisvaara Iron Ore Project is a milestone landmark for the Company, and demonstrates that the Northland product is both desirable and marketable. This significantly de-risks the project, and we anticipate that the Company will in due course look to enter into additional offtake agreements such that in excess of 2.5mtpa of the proposed 5mtpa production is covered by long term sales contracts.

This will facilitate, and in all likelihood be a requirement of, the raising of the project finance required to put the Kaunisvaara Project into production. In this respect, we are particularly encouraged by the fact that Stemcor, the world's largest independent steel trader, is prepared to provide a US\$50m working capital facility, as this shows Northland's customer's desire to secure concentrate from the Kaunisvaara mine.

As further offtake arrangements are secured, we will look to reduce the discount that we have applied to the Kaunisvaara project in our Initiation of Coverage report, to reflect the de-risking that securing long term sales contracts represents. We remind investors that our valuation target for Northland at that time was NOK 25.50 per share, having assumed a 50% risk discount to reflect the fact that the Company had not raised its debt financing, did not have firm offtake deals, and in fact had not delivered a bankable feasibility study.

Since the date of that report (22 Mar'10), the Company has released a significant resource update; has now secured its first firm offtake agreement; has progressed the permitting significantly; and the Swedish government has announced its commitment to co-finance and build an 18 km rail spur from Northland's proposed industrial area in Kaunisvaara, Sweden to the existing rail link at Åkesjökisuu, Finland.

**Key Events / Newsflow:** We expect the flow of good news from Northland to continue in earnest with some important milestones and decisions due to be announced within the next 6 months that will de-risk the project rapidly, including such items as: Further offtake agreement(s) with potential capital funding attached; Completion of the BFS for the Kaunisvaara project expected June/July; Publication of the full PEA for the Hannukainen project; Procurement of long lead items (SAG mill); and equity financing to complete project capital requirements by the summer 2010.

#### RELATED RESEARCH

**Northland Resources: Formal Presentation for Mine Permit Well Received (Fri, 28<sup>th</sup> May)**

**Northland Resources: Positive PEA for Finnish IOCG Project - Reaction Comment (Weds, 12<sup>th</sup> May)**

**Northland Resources: Resource Update for Kaunisvaara Project (Tues, 20<sup>th</sup> Apr)**

**Northland Resources: Positive Rail Decision in Sweden / Indications of Potential Premium for High-Grade Concentrate (Thurs, 1<sup>st</sup> Apr)**

**Northland Resources Inc (OSL:NAUR / TSX:NAU) - Canterng Towards Production in 2012 \*\*Ocean Equities Initiation\*\* (Mon, 22<sup>nd</sup> Mar)**

**Northland Resources Inc - Appointed Banks to Lead Financing (Mon, 1<sup>st</sup> Mar)**

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**Belvedere Resources: Indicated Resource Estimate for the K1 occurrence at Kiimala (Thurs, 3<sup>rd</sup> Jun)**

**News:** Belvedere Resources Ltd ("Belvedere") has announced a new indicated resource estimate of 3.85mt @ 1.19g/t Au for 147,000oz Au for the K1 (Ängesneva) occurrence on its 100% owned, Kiimala gold Property in western Finland.

The K1 gold mineralisation is the first of a cluster of sub-cropping occurrences along a 5 kilometre strike of anomalous mineralisation to be drilled in detail by Belvedere. The gold mineralisation has been intersected by drilling over a strike length of 370 metres to date. The mineralisation occurs as a flattened ellipse in an interpreted steeply dipping dilational zone with a true thickness of between 30-60 m. Mineralisation continues to depths of at least 300 metres. The geological model indicates that multiple occurrences such as K1 could occur in similar structural locations.

The K1 (Ängesneva) occurrence is located approximately 31 km North of Belvedere's Hitura Nickel Mine, and 40 km NNW of Belvedere's Kopsa Gold Project.

**Ocean Comment:** The Kiimala gold property totals 34 sq km of claims and hosts numerous occurrences of orogenic vein and shear hosted gold mineralisation along a 15 kilometre strike length. The two principal targets at Kiimala are the K1 and K3 (historic resource of 24koz @ 2.5g/t) deposits, with a number of secondary targets that remain to be drilled by Belvedere.

This new resource estimate, which follows from a drilling programme that commenced in the second half of last year, has increased the inferred resource of K1 by 88koz from 59koz at 1.54g/t to 147koz at 1.19g/t. While the grade is low, the resource is at surface and we anticipate that the stripping ratio will be low. The deposit is within easy trucking distance of the fully permitted Hitura mill and tailings facilities.

Our understanding from talking to the management of Belvedere is that ultimately the Company will be seeking to define a resource of plus 500koz at Kiimala from the cluster of deposits on the property. These deposits will complement the nearby Kopsa gold-copper property where Belvedere is currently in the midst of a 3,000m drilling programme (see news release of 7 May 2010) and has already announced exceptional results (incl. 92m at over 3 g/t Au).

As we have previously said, Belvedere is seeking to put together a number of open pittable gold deposits around a centralised processing plant at Hitura. While the head grade will be low (1-2 g/t), the fact that all these deposits are close to surface and should benefit from low strip ratios means that Belvedere does have the potential to become a medium to low cost gold producer with a minimal requirement for capital given that most of the mill and tailing facilities are already in place. While there is significant work still to be done at both Kiimala and Kopsa, as a guide for value: if Belvedere can produce at less than \$700/oz, the current gold price would net them over \$15m a year for 30koz of gold. This compares to a current EV of C\$13m for the Company and does not take into account possible copper by-product production of 1ktpa or the potential revenues to be generated from the restart of nickel production at the currently mothballed Hitura mine.

**Upcoming Newsflow:** Financing decision for the restart of Hitura for an 18-month programme; Restart of operations at Hitura followed 4 months later by first production; 43-101 compliant resource and metallurgical results for Kopsa; and positive cash flow from the nickel production is expected to be achieved in 12 months.

At 12 months, depending in the prevailing nickel market sentiment at the time, Belvedere retains the ability to decide to continue to produce nickel from Hitura.

**RELATED RESEARCH**

**Belvedere Resources: Drilling at Kopsa intersects 92m of 3.2g/t Au (Fri, 7<sup>th</sup> May)**

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**Rambler Metals & Mining: Environmental Permit Received for Ming Mine (Tues, 1<sup>st</sup> Jun)**

**News:** Rambler Metals & Mining Plc ("Rambler") has announced that it has received final environmental approval and project release from the Government of Newfoundland and Labrador for its Ming Mine in NE Newfoundland, Canada. This will allow Rambler to start project development when the feasibility study is completed in Q2.

Having received the environmental release, Rambler can now apply for the various permits and licences required to begin construction for the mine, mill and port infrastructure. The Company has already ordered all of the major equipment for the mill expansion and construction of the mine is expected to begin in August with first copper-gold production due in early 2011.

**Ocean Comment:** This announcement has arrived sooner than expected (a rare occurrence in this industry!) and is a significant and positive marker for the Ming project. The important environmental approval and project release shows the good level of support that the Company has received from the government, and we are confident that all other permits and licences will fall into place. This is a major de-risking indicator for the project and with the financing in place from the US\$20m gold sale in March and £2.7m equity placement in April, we think that all major hurdles have been removed from Rambler to start mining.

The Company has C\$11m in cash at the moment, with a further US\$2m from the gold sale due on delivery of the bankable feasibility study and the remaining US\$13m due on receipt of all permits required to start mining.

**Valuation:** We have revised our valuation with improved commodity prices. Since we last published our valuation target of £0.75 per share 2 months ago, copper prices have fallen slightly (although sentiment towards medium and long term pricing remains positive) and gold has improved, which has positively impacted out gold price curve looking forward. As can be seen in Exhibit 3 (*in the full research note*), the increased gold price has had a great effect on the effective operating cost such that in 2011 we are forecasting a cash cost of just US\$0.43/lb Cu after the gold by-product credits.

Our DCF valuation for the Ming mine is now valued at 1st July this year and although our valuation target includes some 'opportunity value' for Rambler's blue-sky opportunities such as the large Footwall deposit and further Massive Sulphides, it should be noted we now value just the Ming Mine alone, with no additional resources, at £0.59 - which is almost a 100% uplift to the current share price. We appreciate that the market has been applying various risk discounts but with the environmental permitting and financing in place, our view of the remaining risk (construction and implementation risk) is that it is very low and Rambler's share price should now start to move up to our valuation point in preparation for significant cash flows in Q1 2011.

Exhibit 1: Sum-of-the-Parts NAV valuation of Rambler shows a minimum valuation of £0.88/share

	NAV US\$m	FX rate US\$/per£	NAV £m	Shares m	NAV per share £/share
Massive Sulphide Zones	\$86m	0.658	£57m	95	£0.59
Footwall Zone potential	\$17m	0.658	£12m	95	£0.12
Massive Sulphide potential	\$13m	0.658	£8m	95	£0.09
Cash	\$11m	0.658	£7m	95	£0.08
Total Rambler NAV	\$80m	0.658	£48m	95	£0.88

### Our 6 – 12 month target price has improved to £0.85 per share.

We feel that today's announcement reduces the project risk significantly, and other events that will be major triggers for a re-rating of the share price to get to these levels will now be: successful commissioning of the retro-fit to the mill; and production start-up in 1Q 2011, after which we expect Rambler to produce net profits of US\$25m in 2011.

**Rambler's current EV of US\$32m implies that it is trading at just 1.3 times 2011 net profits.** This is obviously too low for a company that has a (fully financed) copper-gold mine due to start production within the next 8-10 months. We expect the share price to move up well on today's announcement and again on the announcement of the events mentioned above.

We include in our full research note the production and cash flow highlights from our model. We encourage investors to re-visit our recent research note from 4<sup>th</sup> March for more detail.

*Full research report available on request.*

#### RELATED RESEARCH

**Rambler Metals & Mining - RMM - Buy Back of 3% NSR Royalty for \$1.1m - 1.5% remains (Weds, 7<sup>th</sup> Apr)**

**Rambler Metals & Mining Plc: Bulk of Capex Secured for Ming Mine Start-Up (Thurs, 4<sup>th</sup> Mar)**

**Rambler Metals & Mining: Company Update - Potential gold resource at the Nugget Pond Mine (Jan 26<sup>th</sup> 2010)**

**Rambler Metals & Mining: Mill purchased in 2009 – Mining due to start 4Q 2010 (Jan 18<sup>th</sup>)**

#### Nyota Minerals: Conditions met for IFC's £3.4m investment for 10% of Nyota (Fri, 28<sup>th</sup> May)

**News:** Nyota Minerals Limited ("Nyota") has confirmed that it has entered into a final, legally binding Share Subscription Agreement and Option Agreement with the International Finance Corporation ("IFC") for the previously announced (14th April) equity investment of £3.4m in Nyota.

The IFC public consultation, Australian FIRB approval and Nyota Board approval processes have all been completed and the subscription for £3.44m in new shares and £3.87m of options is expected to be concluded within the next 2 weeks.

The investment is structured to give the IFC 10% of the enlarged share capital with the deal containing a clause so that the IFC will have the right to participate in any fundraisings in order to maintain its position.

Highlights of the deal include:

- An investment price of £0.116 – based on a volume weighted average price (VWAP) for the 5 trading days prior to signing of the initial agreement;
- Additional options on a 0.75 per share equivalency, exercisable at 150% of the investment price (£0.174) within 4 years which is equal to a potential investment of £3.87 m which brings the IFC's potential total investment to £7.3m; and
- An acceleration clause for the options whereby Nyota can enforce the exercise if the closing AIM share price of Nyota is 50% greater than the exercise price (£0.261) for 20 consecutive days.

**Ocean Equities Comment:** The confirmation of the IFC investment was expected but we remind investors of the significance of this deal: not only does the investment provide a very useful £3.4m of working capital, but the IFC will act not just as a shareholder but more as a partner that will help Nyota through social, environmental and political issues in Ethiopia.

The IFC is renowned for its scrutiny of investments and we are sure that it has completed significant due diligence on Nyota and its Ethiopian assets before making this investment. This should be a significant positive for the company in attracting other prospective investors and project financiers as the IFC is a major 'tick in the box' for many areas such as environmental and social issues that are paramount for a mineral exploration / mining project in a region like Ethiopia.

We also expect that the IFC to be the ultimate 'long term shareholder'. We saw one of the IFC's 'Investment Officers' presenting at a conference recently, and when asked about the IFC's strategy for their shareholdings of junior mining stocks, he clearly stated that they would not actively trade the stocks and are 'very long term' holders. For this reason, we consider that the new stock being issued to the IFC can almost be classed as 'locked-up' as it is likely to never come onto the market.

As well as being a support for operating in Ethiopia successfully, we think that in the longer term that Nyota will be looking to the IFC to be the cornerstone project finance investor when it comes to building a mine at Tulu Kapi.

**Upcoming Newsflow:** Further drilling and assay results from the last 10 holes of the current exploration campaign; and further metallurgical testwork at Tulu Kapi.

#### RELATED RESEARCH

**Nyota Minerals: Resource Update to 1.38moz @ 1.7g/t at Tulu Kapi (Thurs, 6<sup>th</sup> May)**

**Nyota Minerals: IFC invests £3.4m for 10% of the Company (Weds, 14<sup>th</sup> Apr)**

**Nyota Minerals - Tulu Kapi Drilling Update (Mon, 29<sup>th</sup> Mar)**

**Nyota Minerals: Outstanding metallurgical results for Tulu Kapi (Feb 3rd 2010)**

**Nyota Minerals: Successful Preliminary Assessment Demonstrates a Viable Gold Mine at Tulu Kapi (Feb 1<sup>st</sup> 2010)**

**Nyota Minerals: Tulu Kapi Trenching Results (Jan 20<sup>th</sup> 2010)**

**Ocean Equities Research: Stocks to Highlight in 2010 (Jan 19<sup>th</sup> 2010)**

**Nyota Minerals Limited (AIM,ASX: NYO): Highly Prospective Gold in Ethiopia with Clear Upside \*\*Ocean Equities Research Initiation\*\* (Nov 30<sup>th</sup>)**

## **Norseman Gold Plc: Mar'10 Quarterly Report, expected to be the low point and well flagged to the market (Thurs, 29<sup>th</sup> Apr)**

**News:** Norseman Gold ("Norseman" or the "Company") has released its quarterly activities report for the period ended Mar'10 following the operational update which was released March 10th. Production was 14,114oz (previous quarter 15,721oz) at a cash cost of A\$990/oz (previous A\$933/oz), with gross cash margins of A\$234/oz pre capex. Despite this the Norseman Project generated EBIT of A\$0.7m for the quarter (prior A\$1.2m), and cash at the end of Mar'10 was A\$21.7m including bullion (previous A\$24.9m) as the Company invested a further A\$8.6m in capital, predominately relating to equipment/infrastructure for the OK Decline. Significantly, operations at the third mine (the OK Decline), commenced during the quarter with 236oz of gold sourced from patchy development material at the top of the Star of Erin reef while waste development was completed to access the high grade areas for mining. New ore headings are expected to be opened up into the next quarter to allow ramping up of production as expected, resulting in a shift from development to production.

Production from the Bullen and Harlequin Declines continued in lower grade areas, with the focus remaining on capital and ore development to access areas for future stoping – to this end over two kilometres of underground development was achieved in the quarter. Airleg stoping again decreased to only 35,367 tonnes (~18% below average operations), resulting in treated tonnes of only 88,889 (previous 95,259t) and the capacity utilisation of the mill fell to less than 50% - the lowest level since Norseman took ownership of the project.

The Bullen Decline has made progress with its capital development during the quarter with the 21 Level of the Bullen orebody now intersected and being developed to the east and west along strike, and the Norseman Incline proceeding up to the defined blocks on the upper St Patrick's Reef. At the Harlequin Decline ore development accelerated during the quarter with a focus on the HV1 and Perch Reefs, with the high grade Redfin/Perch area now open on a number of levels. During the month of March the mine produced +21,000 tonnes of ore which is a record at Harlequin.

Mine exploration and Third Mine Development continues to produce extremely promising results, with significant drill results having been returned from: the Perch Reef at the Harlequin Decline, which is still open in all directions; the Star of Erin at the OK Decline; and the southern end of the North Royal Open Pit. A second surface drilling programme was also undertaken at the southern section of the North Royal Open Pit. Resource review, pit optimisation and regulatory approvals will commence during the Jun'10 quarter and it is anticipated that mining, subject to dewatering (now 41% complete by volume – previous quarter ~21%) and drilling to improve the confidence level of the resources to be mined, will now potentially commence in the Dec'10 quarter (which is not currently included in company guidance).

**Analysis:** There is little incremental news in the quarterly report that was not already included in the March 10th update which resulted in Norseman's share price falling ~16% on the day. We believe the quarter's results have been well flagged and will be the low point in terms of capacity utilisation and production before Norseman's fill the mill strategy starts taking affect (refer to Exhibit 4 for an illustration – *in full research report available on request*). In our view the market is now looking through current operations and valuing the Company on its growth profile over the next couple of years. Norseman is confident that Bullen will return to its targeted production profile, that Harlequin will maintain its current profile and the OK Decline will shortly enter steady state production, which coupled with the ongoing development of the North Royal pit, will result in the treatment plant capacity utilisation rate increasing from less than 50% to 100% during the next financial year which provides the potential to increase the current FY'10/11 company guidance.

Production for the three quarters ended Mar'10 totals 45,995oz at a cash cost of A\$942/oz and the Company remains on track to meet its revised guidance for FY'09/10 of 65,000oz – implied production for the next quarter is ~19,000oz at a cash cost of A\$915/oz. The Company forecast for FY'10/11 remains 105,000 to 110,000oz at cash costs of between A\$670 to A\$730/oz and this increase in production is due to the OK Decline achieving steady state production and improved operations from the Harlequin and Bullen Declines only.

**New Events/Valuation Triggers:** The key drivers to the Company's share price are likely to be: delivering on revised FY09/10 guidance; continued improvement in operations at Harlequin and the ramp up of the OK Decline in line with schedule; successful capital development at Bullen enabling production to return to expected levels early for the FY10/11 financial year; the Australian dollar gold price; further Regional Exploration & New Mine Development updates, particularly a favourable revision to the mining schedule for OK Decline to include the Star of Erin orebody, de-watering progress and drilling in the North Royal Open Pit; resource/reserve upgrades when available (including Perch, OK Decline & North Royal – next fully revised Mar'10 Resource & Reserve Statement); and increased visibility for a significant increase in production/decrease in cash cost as Norseman progresses its third mine/fill the mill strategy.

### **RELATED RESEARCH**

**Norseman Gold plc: Third mine development more than "OK" but fragility of a two mine business model exposed yet again (Weds, 10<sup>th</sup> Mar)**

**Norseman Gold plc: Interim Results – half year to 31 December 2009 (Weds, 24<sup>th</sup> Feb)**

**Norseman Gold Plc: Company Update - Dec'09 Quarterly Report (Jan 28<sup>th</sup> 2010)**

**Norseman Gold Plc: A significant increase in production coupled with a decrease in cash costs is expected to become evident in 2010 (18<sup>th</sup> Jan'10)**

**Norseman Gold Plc: Company Update: Sept'09 Quarterly Report (30<sup>th</sup> Oct'09)**

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## **Greystar Resources: Governmental Request for New Environmental Impact Assessment Could Derail Angostura Project (Mon, 26<sup>th</sup> Apr)**

**News:** Greystar Resources Ltd ("Greystar") has announced that at the end of last week it received a request from the Colombian Environmental Ministry for a new Environmental Impact Assessment ("EIS") to be filed for the Company's 100% owned Angostura gold project, to replace the initial EIS that the Company filed on 22<sup>nd</sup> December 2009.

This request follows a modification to the Colombian mining code that came into effect on the 9th February this year that excluded all mining and exploration activity from certain areas known in Colombia as 'Paramo' ecosystems. Paramo ecosystems are endangered areas that are defined by fauna, flora and other ecological categories and are also defined by elevation. It is this latter definition that affects the Angostura project as a portion of the intended project is situated at altitudes that are classified as containing Paramo or Sub-Paramo ecosystems.

Greystar's previous work at Angostura has defined the lower limit of the Sub-Paramo ecosystem as 3,200m and consequently the Ministry has requested that the new EIA is adjusted so that all works are below this altitude.

The current feasibility study has almost all project facilities and infrastructure above 3,200m, including the leach pads, vehicle maintenance workshops, offices, processing plant, and ~20% of the waste rock dumps. This is because there is a shortage of accessible flat areas at lower altitudes in the immediate area. Also half of the proposed footprint of the pit is above 3,200m. Consequently, if this decision is to be considered final, the project will need a complete re-think and will probably have to be re-considered as a new pre-feasibility project.

**Analysis:** This is quite obviously a 'do-or-die' moment for Greystar. The immediate plan is to submit an appeal to the decision by this Thursday, after which the Ministry has 15 working days to consider the appeal and make a decision. We shall be watching the newswires with interest from 20th May onwards.

Greystar's appeal plan is two-pronged:

1) To argue that the Company was assured by the Minister for the Environment (in writing in August and verbally in many other discussions from June to November last year) that if its initial EIA application was submitted before the change in the mining code, that it would be 'grand-fathered' and would therefore be exempt from the change.

2) To gain clarification of the exact definition of the Paramo ecosystem and the altitudes at which it exists. The current definition has been written by the Alexander Von Humboldt Biological Institute in Colombia and Greystar considers it to be vague enough that the Angostura area might not fall under the restricted area (being Sub-Paramo and not Paramo).

Looking at the potential outcomes of this appeal process, we think that Greystar's position is somewhat binary: should the appeal be successful, we are of the opinion that there would be no discernable delay and would expect the share price to return rapidly to its former levels (we have seen a ~50% drop today) however should the appeal fail we think that the project will be pushed back at least 2 years and we struggle to see how an operation of similar size could ever be built at Angostura at less than 3,200m altitude.

Whilst high gold prices in the future may mean that the ore could hold great value which could justify (for example) a ore slurry pipeline to a processing facility at a lower altitude (this could be many kilometres away), we are most concerned with the waste rock disposal as transporting waste rock of no value over long distances could impact the economics of the project severely. Greystar is currently very well funded with C\$120m in cash (as at end Jan 2010) and no debt and so we would not expect a cash shortage in the near term as the appeal unfolds.

**Key Events / Newsflow:** Undoubtedly the key event for Greystar is now the outcome of the Government's consideration of the appeal. We calculate that this should be received by 21st May; We assume that all other works will be on hold until the appeal decision, as a negative outcome could change the Company strategy completely. If a positive response is received, we expect the plan to proceed as previously expected, including: Publication of the bankable feasibility study which we expect in the third quarter; Listing of stock on the Colombian exchange; and the receipt of the mining licence – maybe by the end of 2010.

#### RELATED RESEARCH

**Greystar Resources - EIA submitted, Angostura on its way to a mining permit (Weds, 10<sup>th</sup> Feb)**

**Ocean Equities Research: Stocks to Highlight in 2010 (Jan 19<sup>th</sup> 2010)**

#### Griffin Mining: Updated JORC Mineral Resource for Zone III at Caijiaying (Weds, 3<sup>rd</sup> Mar)

**News:** Griffin Mining Ltd ("Griffin") has released an update to the JORC resource for its Caijiaying zinc mine in north-east China that has seen a large uplift in zinc and gold grades. The recalculation of the resource is the result of 5 years of grade control drilling at the mine.

Zone III (Mining area) 1% Zn cutoff	Ore (mt)	% Zn	% Pb	g/t Ag	g/t Au	Zn metal kt	Pb metal kt	Ag metal koz	Au metal koz
Measured	4.74	6.73%	0.41%	34.29	0.87	319	19	5,222	132.50
Indicated	6.00	5.85%	0.35%	32.48	0.81	351	21	6,264	156.23
Measured & Indicated	10.74	6.24%	0.38%	33.28	0.84	670	40	11,487	289
Inferred	16.60	4.38%	0.24%	26.39	0.95	727	40	14,081	506.89
Total resources	27.33	5.11%	0.29%	29.10	0.91	1,397	80	25,568	796

Source: Griffin Mining

Although Griffin's reporting of its resources has never been entirely lucid (the Company has still not published a mining reserve), this latest resource leaves no doubt that there is plenty of high-grade ore in the Caijiaying mine – enough to last over 35 years at the proposed increased rate of 750ktpa. The deeper resources have not been included in this report as they will be tested by a drilling programme in 2010 that hopes to define a JORC resource in 2011 whilst gaining a fuller understanding of the structures at depth.

The zinc grades for the new resource are improved from the last statement (36% for the indicated and 51% for the inferred) and the gold grades have also significantly improved (16% for the indicated and 90% for the inferred). Successful drilling between Zone III (the current focus of mining) and Zone II (an exploration orebody ~1.5km to the south) has given the Company the confidence to initiate a 25,000m surface and underground drilling programme that might result in a JORC resource for this in-between area.

**Analysis:** Although we had been hoping to see a resource for the deeper resources, we are very pleased to see that Griffin has now defined a JORC resource for a high-grade orebody that will feed the processing plant at its upgraded level for a very long mine life (longer than the expected life of most of the parts if the plant we suspect!).

Up to this point, mining at Caijiaying has been mostly down to a level approximately 150m depth from the surface. The 'sub-1300 level' mining permit that Griffin received at the end of January enables the Company to now mine below this 150m depth. This latest resource covers resource to approximately 300m depth from surface. Our understanding is that a resource statement for the deeper levels will be produced in 2011, although the Company will not suffer from a lack of ore in that time so we feel no anxiety about this delay.

The new resource numbers do not give us cause to adjust our cash-flow model assumptions: we are assuming head grades of 6.00% Zn, 0.50% Pb, 30g/t Ag and 0.80g/t Au. Chairman Mladen Ninkov again re-iterated the Company's intention to increase throughput to 750ktpa by the latter half of 2010 but we are keeping our forecast at 50kt per month for the foreseeable future as a conservative measure. As we see quarterly results that confirm a successful commissioning period for the expansion to 750ktpa we will adjust our model as appropriate. Our model currently assumes attributable 2010 production of 20.5kt Zn, 900t Pb, 139koz Ag and 4.6koz Au.

With the increased gold grades in the new resource, the by-product credits are now starting to represent a significant revenue stream for mine:

The implied value of by-products at Caijiaying	Zinc	Lead	Silver	Gold
Current price (\$/t / \$/oz)	2,170	2,150	16.80	1,130
M&I resource grade (% / g/t)	6.24%	0.38%	33.28	0.84
Value per tonne (after recoveries) (US\$/t)	128.60	4.05	7.19	15.19
Converted to zinc grade (%Zn)	5.93%	0.19%	0.33%	0.70%
Zinc equivalent grade (recovered)	7.14%			
\$ per tonne increase	26.43			

The analysis above shows that the new grades could create additional revenues of over \$26/t ore which is significant as it is equivalent to over half the projected mining costs.

**Key Events / Newsflow:** Initiation of mining at the deeper levels in the coming quarters; Annual financial results to confirm profitability levels; Completion of expansion works to 750ktpa by end of 2010; and a corporate transaction that utilises some or all of the current \$65m cash balance.

#### RELATED RESEARCH

**Griffin Mining: Trading Update - Increased Production in 4Q 2009 (Mon, 15<sup>th</sup> Feb)**

**Griffin Mining Ltd: Company Update - New Mining Licence Issued (Jan 26<sup>th</sup> 2010)**

## Iron Ore Holdings Ltd: Maiden resource at Buckland Hills illustrates the potential for a number of further catalysts (Feb 2<sup>nd</sup> 2010)

**Investment Opportunity:** Following our recent catch up with the Company in Perth and the announcement of a maiden JORC resource for Buckland Hills, we have taken the opportunity to provide some further analysis on the significant progress made by IOH recently and provide our view on the likely catalysts which we believe could see IOH be at least a A\$3/sh in the near term if the current marco and sector environment does not significantly deteriorate.

We believe there have been two key drivers for IOH's share price appreciation since we initiated coverage on the Company (Oct 21<sup>st</sup> at A\$0.87/sh) to the current price of A\$2.17/sh:

Re-rating of the sector – the Australian Pilbara iron ore sector is up ~20% having enjoyed a re-rating driven by: a significant increase in spot iron ore prices (+~35%); consensus contract price upgrades (to ~20% for JPY'10/11); renewed interest by investors wanting to gain pure play iron ore exposure; near record Chinese iron ore imports; record Australian iron ore production levels; approval of BHPB's A\$204m take out of UMC; and, further corporate activity in the sector both in Australia and internationally;

Significant company specific news flow – in this favourable environment IOH has made significant progress developing its suite of assets providing regular positive news flow and the Company has been rewarded by the market with IOH outperforming its peer group (refer Exhibit 10 in full research report available on request). We believe the maiden JORC resource of 47.9mt @ 58.05% Fe at Buckland Hill's further illustrates IOH's ability to quickly delineate high grade resources in the next 6 months.

While IOH's share price has performed strongly, the Company continues to trade at a discount to the implied comparable transaction value that BHPB has paid for UMC despite IOH being: a multiple deposit company; its first asset set to begin production in 2H'10; enjoying greater DSO resources (which enjoy a higher strategic value and degree of competitive tension); and, has a second asset which has a 6 month exclusivity agreement for commercial development with Rio Tinto ("RIO"). We believe the recent developments provide the foundation for a further significant resource growth and share price re-rating, and we view the recent weakness in IOH's share price as an attractive entry point.

**Analysis:** IOH in the last 6 months has made considerable progress in developing its existing assets and making a number of new discoveries which provides the foundation for significant growth in resources and an extremely attractive portfolio of development assets. While the discovery of Iron Valley was the driver of IOH's share price in 2009, we believe Phil's Creek entering production in 2H'10, the potential commercial transaction with RIO for Iron Valley, and the resource definition/development of a number of other projects (primarily Buckland Hills, Koodaideri South and Lamb Creek) will see IOH's share price continue to significantly outperform and the Company enter the ASX 200 Index.

Between Nov'08 and Nov'09 IOH drilled 251 holes for 17,000 metres, increasing its JORC resources from 57mt to 253mt (now 301.3mt including Buckland Hills). It is worth highlighting in the next 6 months IOH plans to drill 20,000 metres spending A\$5-6m, more than it did during FY'08/09, across four already made discoveries. Below we provide some further analysis on the recent developments made by the Company and why we think IOH can become at least A\$3/sh in the near term.

- Major maiden resource at Buckland Hills, West Pilbara (Feb 2<sup>nd</sup>)
- Iron Valley drill results (Jan 25<sup>th</sup>)
- Phil's Creek progress (Jan 21<sup>st</sup>)
- Further high-grade results at the Boundary project, Lamb Creek (Jan 15<sup>th</sup>)
- New discovery at the Fingers project, Koodaideri South (Jan 13<sup>th</sup>)

**Key Events / Valuation Triggers:** Maiden high grade resources for the Boundary project (Lamb Creek) and the Fingers project (Koodaideri South) in Feb/Mar'10; further resource upgrade for Iron Valley by Mar/Apr'10; Phil's Creek mining contractor expected to be appointed with further details for project funding to be announced by 2Q'10; Results from the aggressive 20,000 metre drilling programme in 1H'10 targeting Iron Valley, Buckland Hills (Targets 1 & 2), Lamb Creek (Boundary project), and Koodaideri South (including Fingers, Hidden Valley, Bight, and Kurrajura West/East prospects); Positive outcomes regarding rail access at the State and Federal government levels; Negotiations for potential sale and/or commercial transaction for Iron Valley to RIO by July 31<sup>st</sup>; Further potential commercial transactions for other IOH projects and resource upgrades.

### RELATED RESEARCH:

Ocean Equities Research: Stocks to Highlight in 2010 (Jan 19<sup>th</sup> 2010)

Iron Ore Holdings Ltd: 2009 a transformational year; we see further value accretion in 2010 driven by the development of Iron Valley (Jan 11<sup>th</sup> 2010)

Iron Ore Holdings Ltd: Is 191.5mt in the price? ...We think not & the blue sky is only getting bigger (Nov 24<sup>th</sup>)

Iron Ore Holdings: New assay results support a further significant resource upgrade and likely positive share price catalyst (Nov 5<sup>th</sup>)

Iron Ore Holdings: Comparable transactions highlight favourable valuation anomaly **\*\*Initiation of Coverage\*\*** (Oct 21<sup>st</sup>)

### IRON ORE RELATED RESEARCH:

Iron Ore Sector Update: Iron ore spot prices enter the New Year with momentum; market fundamentals are looking positive into 2010 (Jan 11<sup>th</sup> 2010)

Ocean Equities Research: Stocks to Highlight in 2010 (Jan 19<sup>th</sup> 2010)

United Minerals Corp - UMC shareholders vote in favour of the BHPB offer (Jan 28<sup>th</sup> 2010)

United Minerals Corp: BHPB deal announced, now awaiting final approvals or an unlikely counter offer (Jan 15<sup>th</sup> 2010)

UMC & Pilbara Iron Ore sector update: Conditional cash offer at a 43% premium for UMC by BHPB - further rally in the juniors (Oct 16<sup>th</sup>)

UMC & Pilbara Iron Ore sector update: Positive re-rating of the junior sector if there is a "potential change of control transaction" for UMC (Oct 7<sup>th</sup>)

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## OCEAN STOCKS TO HIGHLIGHT IN 2010

### Listed:

Kirkland Lake Gold Inc  
Borders & Southern Petroleum plc  
Greystar Resources Ltd  
Iron Ore Holdings Ltd  
La Mancha Resources Inc  
Sylvania Resources Ltd  
United Minerals Corp

Norseman Gold plc  
Griffin Mining Ltd  
Rambler Metals & Mining plc  
Nyota Minerals Ltd  
North River Resources plc  
Chromex Mining plc  
Belvedere Resources Ltd  
Wavenet International Ltd

### Private:

Electrum Capital Inc  
First Coal Corp  
Kameni Ltd  
South American Ferro Metals Ltd  
WA Kaolin

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