WEEKLY REVIEW

Read all about it: Reporting season - What are the themes to expect?

OCEAN EQUITIES Ltd

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Quote of the week: *"Give me where to stand, and I will move the earth."* – Archimedes, 300 B.C.

Stat of the week: *"Australia in its first innings against England declared at 674 for 6 with 4 individuals scoring century's in an innings, the first time the feat had been accomplished against England in 887 tests"* – The Telegraph

Macro Discussion – What does the wider view look like?

- **China's forex reserves pass $2,000bn (Weds, 15 Jul)**
- **Goldman Sachs risk-taking pays off (Weds, 15 Jul)**
- **Quarterly jobless rise largest on record (Weds, 15 Jul)**
- **China plans world's biggest IPO in 2009 (Mon, 13 Jul)**
- **Several countries report encouraging June auto sales (Fri, 10 Jul)**

News Review:

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

- **Spitfire Oil - 69% Increase in Salmon Gums Resource (Thurs, 16 Jul)** **Ocean Comment**
- **Ores ain't ores (Thurs, 16 Jul)**
- **Rio boosts iron ore output (Weds, 15 Jul)** **Ocean Comment**
- **Dioro rejects revised bid as rival talks continue (Weds, 15 Jul)**
- **BHP, Rio to face hurdles if merging coal units – analysts (Weds, 15 Jul)**
- **Investec favours gold shares over the metal (Weds, 15 Jul)**
- **ATW Gold trumps Orvana in the battle for Kinbauri, and now aims to move rapidly to production of 250,000 ounces per year (Weds, 15 Jul)** **Ocean Comment**
- **Cape Lambert to take 19% Cauldron stake (Weds, 15 Jul)**
- **FMG pushes down costs, ups tonnes (Mon, 13 Jul)**
- **Coal of Africa needs funds for expansion (Mon, 13 Jul)**
- **Finn Nickel initiates voluntary bankruptcy proceedings (Mon, 13 Jul)**
- **Seeing red over Rio (Sat, 11 Jul)**
- **Intrepid, Vale in deal over Tujuh Bukit (Fri, 10 Jul)** **Ocean Comment**
- **St Barbara suspends WA gold mine (Fri, 10 Jul)** **Ocean Comment**
- **Where iron is bigger than oil or gold (Fri, 10 Jul)**
- **The auto scrappage incentive schemes; how do platinum and palladium fare? (Fri, 10 Jul)**
- **June China iron ore imports second highest ever (Fri, 10 Jul)**

Highlighted Research:

A summary of Ocean Equities most recent research products:

- **Spitfire Oil Ltd**: 69% increase in JORC reported resource further improves a significant scale, long term lignite project (July 16th)
- **Kirkland Lake Gold:** The South Mine Complex continues to significantly grow - updated Reserve and Resource statement (July 15th)
- **Norseman Gold:** Significant reserve upgrade increases visibility of Norseman's mine life and illustrates further exploration potential (June 30th)
- **United Minerals Corporation - Iron Ore update:** New assay results confirm extensive high grade mineralisation in the Railway Boundary Zone (June 15th)
- **La Mancha Resources:** Increasing Production Profile with VMS Opportunity (June 11 th)
- **Greystar Resources:** Near Surface Gold Found 3km from Angostura (June 3 rd)
- **Chromex Mining plc:** Interim results for the half ended Mar'09 (June 3 rd)

Refer to page 19 "Highlighted Research" for further detail and page 24 for "Commodity and Currency prices in more detail" sections.

Ocean Comment:

As August approaches and we enter the reporting season, there will be analysts buried up to their ears with numbers and data. However, we are of the belief that there will be a particular theme's emerging from the results and highlight that it will not be about being in line with current guidance numbers, but rather where the scope is for improvement in numbers for the next quarter, interim and next full year. While we expect there will be a few nasty surprises still to emerge, it appears the market will be willing to look through these is funding is secured and underlying operations are improving.

So far this week we have seen an improving outlook from the US Reserve and encouraging results (particularly from Goldman Sachs and Intel) support the renewed optimism in the US equity markets, which coupled with increasing visibility that the Chinese economy is rebounding (2Q'09 GDP increased 7.9% qoq versus 6.1% in the March quarter) has only lead the global equity markets.

Over the past 12 months we have seen a radical change not just in the macro-economy, but also within the mining sector, in particular curtailed production across commodities and cost reduction strategies that have resulted in limited exploration and slowed output. However, there are positive numbers starting to appear in the global macro-economy, with lead indicators such as Leading Economic Indicator (CLI) and the Purchasing Managers Index (PMI), showing signs of improvement in China and the US as well as Europe and Japan. We believe that a recovery in BRIC countries will be a commodity price driver in the medium-term, possibly early 2010. The majority of China's growth is driven by its domestic economy, rather than exports, and as such a slowing of growth in China appears to have troughed supported by recent significant stimulus packages and easing monetary policy. We have also seen guidance from the likes of BHP and Rio Tinto also suggests demand out of China will continue apace as the economy industrialises. **...Continues on page 24...**

Thursday 16th July, 2009

Commodity spot prices - *quick look*

Precious Metals	Last	1W %
Gold (US$ / oz)	935.8	2.58
Silver (US$ / oz)	13.3	3.07
Platinum (US$ / oz)	1,162	4.62
Palladium (US$ / oz)	244.3	4.05
Base Metals		
Copper (US$ / t)	5,271.5	11.91
Nickel (US$ / t)	15,861.0	6.72
Cobalt (US$ / lb)	13.8	1.85
Zinc (US$ / t)	1,517.5	2.40
Lead (US$ / t)	1,612.0	1.70
Bulk Metals		
Iron Ore - China Fines	87.0	6.75
Iron Ore - China Pellets	104.5	2.45
Coal - NYMEX Yr1 Fut (U	54.4	-1.74
Chrome - FOB RSA Spot (C	155.0	0.00
Energy		
WTI Oil (US$ / barrel)	61.5	2.33
Brent Oil (US$ / barrel)	62.4	3.45
Baltic Supramax Index	1,953	11.66

Currency prices - *quick look*

	Last	1W %
US$ / £	1.64	0.16
US$ / €	1.41	0.38
US$ / C$	1.12	3.61
US$ / A$	0.80	1.77
US$ / ZA Rand	8.16	-0.43

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Macro Discussion – What does the wider view look like?

China's forex reserves pass $2,000bn (Weds, 15 Jul)

Beijing's foreign reserve holdings have surged through the $2,000 billion mark, as money pours back into China to take advantage of faster economic growth and rapidly inflating asset prices. The flow of funds threatens to renew pressure for a further revaluation of the renminbi at a time when the government and domestic business are focused on financial stability.

An economist at a state think-tank said Beijing was caught in a squeeze similar to the one that bedeviled policymakers earlier this century, with a flood of hot money trying to force the government's hand on the currency.

"The same expectations of a renminbi appreciation will start to accumulate all over again," said the economist, who asked not be named.

The hot money is betting China's economic recovery, already evident in record or near-record levels of output of steel and other industrial goods in June, will be sustained.

The second quarter GDP figures, due to be released on Thursday, are expected to record strong growth, of just under 8 per cent for the last three months.

The People's Bank of China, the central bank, announced on its website that foreign reserves reached $2,132bn at the end of June after a rapid accumulation of funds in the second quarter.

The reserve build up in the second quarter was $177.9bn, including a monthly record in May of $80.6bn.

The quarterly figure far outstrips China's trade surplus and inbound foreign direct investment for the same period, proof that the accumulation of funds inside the country is being driven by other factors.

"China's foreign exchange reserve headache has returned," said Stephen Green, of Standard Chartered, in Shanghai.

The latest figures also represent an abrupt reversal of an emerging trend of the previous two quarters.

Foreign reserves increased by just $7.7bn in the first three months of the year, and $40.4bn in the fourth quarter of 2008, as foreign firms sent profits home and banks demanded repayment of loans.

Chen Xingdong, of BNP-Paribas, in Beijing, calculated that after taking account of the trade surplus, foreign investment and the impact of changes in global currency valuations, about $70bn in hot money came into China in the second quarter. In the first quarter, by contrast, about $65bn in funds flowed out, he said.

China maintained a virtual US dollar peg for more than a decade until mid-2005, prompting complaints from its major trading partners that Chinese exporters held an unfair pricing advantage.

Beijing's move to a slightly more flexible exchange rate in mid-2005 and a 20 per cent revaluation against the US dollar over the following three years, relieved much of the political pressure over the currency.

Since mid-2008, however, the renminbi has barely moved against the greenback as Chinese exporters' sales overseas have dropped sharply because of the global economic downturn,

"We have now moved back to a virtual US dollar peg," said the think-tank economist.

The central bank, in order to keep the renminbi stable, buys US dollars and other foreign currencies coming into China, and then holds the funds on its balance sheet.

(The Financial Times)

Goldman Sachs risk-taking pays off (Weds, 15 Jul)

THE fact Goldman Sachs made as much money in the second quarter as it did for all of 2008 is undeniably good news. It shows markets are open for business, and given that many of its peers are dead or recovering the investment bank demonstrates the benefits of well judged risks.

Common measures of risk, like VAR or value at risk, show Goldman was happy to risk more last quarter than it has for the last couple of decades, with as much as $US245 million ($308.7m) at risk each day, way above peers like JP Morgan at $US190m.

Evidence of risk taking is in many ways good news for punters around the world, but at some point someone will say it's all a bit too soon.

Not 12 months ago Wall Street, as we knew it, was on its knees and in some quarters written off, the US taxpayer came to the rescue and already Goldman is stacking away $US11.4 billion in the first six months to pay staff .

If everything holds together for the rest of the year, then each of the 29,400 staff at Goldman will earn $US433,000 a year, up from $US243,511 a year ago, and at a time when more than 10 per cent of the US workforce is unemployed .

Wasn't it Wall Street which got the country into a mess in the first place and now here it is making out like a bandit on the first sign of a recovery.

It is not a good look, but with the recovery still fragile Washington won't step in too quickly, after all a functioning market will help the Obama administration get on with its agenda.

Over half of Goldman's earnings came from trading profits, with merger and acquisition income less than half year ago levels and one quarter of the 2007 peak, so there is still room to doubt the sustainability of the stunning $US3.4bn quarterly profit .

Its rivals are also starting to pick up the pieces.

JPMorgan will report its quarterly numbers on Friday, while Morgan Stanley has also repaid its government aid, showing its ready to do business again.

Wall Street has returned looking remarkably similar to the one that died a year ago, while the rest of the world is also left picking up the pieces.

(theaustralian.news.com.au)

Quarterly jobless rise largest on record (Weds, 15 Jul)

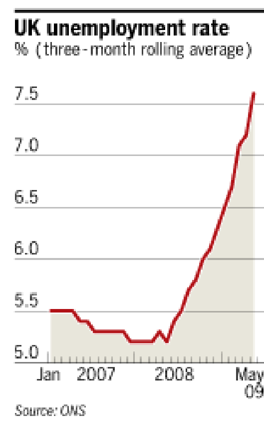
The number of people unemployed in the UK rose by 281,000 to 2.38m in the three months to May, the largest quarterly increase since records began in 1971. The larger than expected increase meant 7.6 per cent of the workforce was jobless, the highest level since January 1997 and a rise of 2.4 percentage points compared with last year. Economists had been expecting a 7.4 per cent level.

The gloomy figures were counterbalanced, however, by a smaller than expected monthly rise in the number of people claiming jobless benefits, which increased by 23,800 to 1.56m in June.

This was the smallest monthly increase in the claimant count for 13 months. Economists had been expecting a rise of 40,500.

Economists expect overall unemployment to peak at around 3m, 9.6 per cent of the workforce, or slightly higher next year.

Young people continue to be hard-hit, with 726,000 18-24 year-olds unemployed in the three months to May, the highest level since January 1993 and a rate of 17.3 per cent compared with 12.6 per cent a year ago.



The number of people in work fell by 269,000 to 29m. The employment rate was 72.9 per cent of working age adults, down 0.9 percentage points on the previous three months and the largest quarterly fall since records began in 1971.

Vacancies were down by 35,000 to 429,000 in the three months to June, the lowest figure since records began in 2001.

The number of people unemployed for more than 12 months rose by 46,000 to 528,000, the highest since August 1998.

Average earnings, excluding bonuses, increased by 2.6 per cent in the three months to May compared with the previous year, the lowest annual growth rate since records began in 2001. Average earnings, including bonuses, rose by 2.3 per cent.

The West Midlands saw the biggest increase in unemployment, of 4.1 per cent to a level of 10.3 per cent, the UK's highest, in the three months to May compared with a year ago.

Yorkshire and the Humber saw the second highest increase, of 3.2 per cent to a level of 8.8 per cent.

Jim Knight, employment minister, said there were signs that the government's actions to help the unemployed were starting to work. "We have a lower unemployment rate than the US, Germany and France. Through investing now in more staff, more training and working with local employers, fewer people are getting stuck on benefits for months and years."

But Brendan Barber, general secretary of the Trades Union Congress, said the figures were "truly horrendous. The people who have lost their jobs this month and who fear they will in months to come are not talking of recovery or green shoots.

He added: "Yet rather than treat unemployment as a national emergency, growing numbers of politicians are calling for deep public expenditure cuts. This will make the recession far worse – 200,000 nurses, teaches and other public servants will join the dole queue, private companies will lose business, public services will deteriorate and the deficit will get worse."

David Kern, chief economist at the British Chambers of Commerce, said: "These figures make grim reading and confirm our assessment that although the recession is easing unemployment is set to continue rising at a rapid pace. On the basis of these numbers we reaffirm our forecast that unemployment will peak at around 3.2m next year.''

(The Financial Times)

China plans world's biggest IPO in 2009 (Mon, 13 Jul)

CHINA State Construction Engineering Corporation says it plans to raise at least 40.5 billion yuan ($7.6 billion) via an initial public offering in Shanghai in what is expected to be the largest equity float both in China and globally this year. The sooner than expected listing of the country's largest home builder is a sign that Beijing is shifting away from a strategy to adopt a measured pace for IPO approval since it ended a nine-month-long moratorium for new listings last month.

The stunning debuts of two firms that first benefited from the market's reopening on Friday may have convinced the authorities that demand far exceeds supply.

China State Construction said in a statement on the Shanghai Stock Exchange website that it plans to issue as many as 12bn yuan-denominated A shares, which it said won't account for more than 40 per cent of its enlarged share capital.

It will start its IPO roadshow today and open subscription from July 21 to July 22.

The company said it plans to use the funds mainly for its various housing-development and infrastructure projects, in addition to supplementing working capital.

China International Capital Corporation is the underwriter of the deal, which is set to dwarf the $US4.27bn ($6bn) IPO by Brazil's VisaNet earlier this year.

China State Construction's announcement came after it received final regulatory approval from the country's securities watchdog late on Friday.

The regulator's nod on the mega IPO took many by surprise as it approved a batch of mainly small- or medium-sized listings last month when it ended the IPO moratorium since September.

Investors had expected China State Construction's deal to come much later in the year as market stability remains the top priority for the authorities.

However, the robust investor appetite shown at the listing debuts of two firms on Friday, first since the IPO floodgate was reopened, may have injected a heavy dose of confidence and optimism into the regulator's mind.

Guilin Sanjin Pharmaceutical and Zhejiang Wanma Cable soared on their first day of trading.

Guilin Sanjin, a medicine producer, ended up 81.9 per cent from its IPO price. Information technology equipment maker Zhejiang Wanma jumped 125.5 per cent from its IPO price.

Guilin Sanjin raised 910.8 million yuan from its share offering, and Zhejiang Wanma 575m yuan shortly after Sanjin's IPO.

Despite the small sizes of the two firms' IPOs, the price surges showed there was more than enough pent-up demand for larger floats to mop up, analysts said.

(Dow Jones)

Several countries report encouraging June auto sales (Fri, 10 Jul)

A number of major automakers have reported better-than-expected sales in the US for June as the industry finally showed signs of commencing a recovery. Ford was the main mover, recording a decline of 10.9 per cent for the month, which slotted in at the top end of its prediction for a drop of between ten and 20 per cent.

Nissan saw a 23.2 per cent fall, while Toyota's sales were down by 31.9 per cent and financially-troubled Chrysler and General Motors (GM) posted decreases of 42 per cent and 34 per cent respectively.

Furthermore, experts have confirmed that industry-wide sales fell by 28 per cent on a year-on-year basis in June, which stands as the best figure since last September.

"I wouldn't say that the industry has done a 180 [degree turn], but I would say that in the last 60 days the industry has stabilised," Al Castignetti, Nissan's US General Manager, told Reuters.

Meanwhile, Volkswagen confirmed that its US sales fell by 18 per cent annually in June, although its new cleaner diesel vehicles - which use pgms to help reduce harmful emissions - enjoyed a 26 per cent share in the total figure.

"It appears that US consumers are starting to realise the many benefits of today's clean diesels - vehicles that attain more than 30 per cent better fuel economy while emitting 25 per cent less greenhouse [gases]," said Volkswagen of America Chief Operating Officer Mark Barnes.

Moving to the UK, the total auto production figure for May was 67,745 units, which represented a 43 per cent decline from the same period 12 months earlier. However, it was also the smallest monthly decrease of 2009 so far and Paul Everitt, Chief Executive of the Society of Motor Manufacturers and Traders, said that the country's "cash for bangers" scheme is starting to have a "positive impact".

"Prompt action by manufacturers to realign supply with demand has been painful, but was necessary. There is now a direct link between demand in the marketplace and production volumes," he added.

Similar schemes encouraging consumers to trade in their old vehicles for scrappage in exchange for discounts on new cars are in place across Europe.

In France, this made a significant impression on auto sales for June, with new car registrations increasing by 7.1 per cent, with 20 per cent of overall sales accounted for by the scheme. However, Xavier Fels, President of industry association CCFA, warned that the end of initiative would be "delicate" and called for the government to phase it out one step at a time.

There was a similarly optimistic outlook in Spain, where its scrappage scheme saw the rate of decline in sales hit 15.9 per cent in June, compared to the figure of 38.7 per cent in May.

In addition, orders were up by nine per cent in Italy and sales increased by 12.4 per cent, representing the first year-on-year monthly rise since the government implemented its own incentives in February.

Germany's scrappage scheme appears to stimulating the most interest, after the VDIK car importers' association confirmed that new registrations were up by 40 per cent to 427,000 units in June. The rise means that new registrations in the first half of 2009 have increased by 26 per cent, while auto group VDA has increased its annual forecast from 3.1 million units to 3.5 million units.

However, VDIK warned in a statement: "One should expect that growth in the months ahead will not reach the record levels of the first half."

Meanwhile, Indian consumers were lured by a range of new models on the market and sliding borrowing costs in June, contributing to a 7.8 per cent year-on-year sales increase to 107,531 cars. Dilip Chenoy, Director General of the Society of Indian Automobile Manufacturers, told Reuters: "It is a kind of pent-up demand. A lot of sales in the two-wheeler and passenger car segment [are] led by new model sales."

The auto group added that sales of trucks and buses in the country - often used as an indicator of economic activity - declined by 12.5 per cent to 36,193 units.

Official figures have also confirmed that sales across the Japanese auto industry slumped by 14.5 per cent during June - the ninth consecutive double-digit monthly fall - although analysts noted that the speed of decline is decreasing.

Elsewhere, Chinese auto sales rose by 36.5 per cent on a year-on-year basis to 1.14 million units over the course of the month - the largest monthly jump so far this year.

According to new data released by the China Association of Automobile Manufacturers (CAAM), first-half sales also increased by 17.7 per cent to 6.10 million units.

The semi-official industry group now believes the country will sell over 11 million units this year, a rise of 17.3 per cent from the 2008 figure and up from its original prediction of 10.2 million, the Xinhua news agency reports.

Furthermore, the CAAM revealed that passenger-vehicle sales increased by 48 per cent to 872,900 units - the sharpest rise since February 2006 - as subsidies and tax cuts devised in Beijing began to take effect.

GM has also confirmed that it achieved record sales of 841,442 units in the first half of 2009 in China, representing a rise of 38 per cent from the equivalent period last year.

The news comes after the company, which filed for bankruptcy recently, reported that its sales had increased by 75 per cent year-on-year in the country during May.

"Thanks to government stimulus measures on the auto industry and the rising demand in subordinate cities and rural areas, China's auto market [has] seen a strong growth and GM's products [have] been very popular," GM China Group President and Managing Director Kevin Wale told Xinhua.

Finally, Brazilian national automakers' association Anfavea confirmed that auto sales in the country surged to a record 300,002 units in June, representing a 17.2 per cent leap from May and a 21.5 per cent increase from June 2008.

Production rose by 8.4 per cent from the previous month to 283,900 units, although this was also an 8.2 per cent decline on a year-on-year basis.

The improvement in sales can largely be explained by a raft of tax breaks, lower prices and gradually improving confidence in the economy.

"There has been an improvement overall in terms and conditions of credit and confidence, turning in another healthy month for the sector," Alexandre Andrade, Auto Industry Analyst at consulting firm Tendencias, told Reuters.

(platinum.matthey.com)

News Review:

Spitfire Oil - 69% Increase in Salmon Gums JORC Reported Resource (Thurs, 16 Jul)

Spitfire Oil Limited ("Spitfire" or the "Company") is very pleased to announce an increase for its 100% owned Salmon Gums lignite deposit in the south-east of Western Australia. The reported Resource of lignite (at 4m coal thickness & 45% ashdb cut-off) is estimated to be: 406 million tonnes Indicated; 470 million tonnes Inferred; and Total: 876 million tonnes.

This new resource represents a 69% increase over the 519 million tonnes (at 5m thickness & 30% ashdb cut-off) Inferred Resource of lignite which supported the Company's admission on AIM in July 2007. This substantial resource is the result of a 1 ½ year drilling campaign involving 420 new drilled and cored holes for a total of 12,624 metres. The estimate in accordance with the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (The JORC Code, 2004) was generated through a thorough definition, audit and verification process managed by independent geological consultants G&S Resources.

Further, on 6 July 2009, the Company applied for 4 mining leases in addition to the 2 leases applied for in July 2008, bringing the total area under application for mining leases to 27,660 hectares. The applications for extensive mining leases covering the resource are an important milestone on the path to transforming the Salmon Gums project into commercial production.

In addition, if the current oil yields achieved with the test reactors in the Curtin University laboratory can be maintained at an industrial scale, then the reported Resource of lignite would correspond to an in-situ pyrolysis oil resource in the range of 330 to 420 million barrels, an increase in the range of 65% to 110% over the 200 million barrels in-situ oil volumes which supported the company's admission onto AIM.

The Company intends, over the next three quarters, to focus its efforts on completing its technology definition work with emphasis now shifting from the generation of oil to the upgrading of the pyrolysis oil into its maximum saleable form and completing its pre-feasibility studies.

Chairman Mladen Ninkov commented "We are delighted with the sustained increase in the resource at Salmon Gums which continues to exceed our initial expectations. The current plans to produce approximately 20,000 barrels of oil per day for 25 years with the previously defined 400 million tonnes lignite resource will be significantly improved by this huge increase in the resource, reported according to JORC standards, which, at first glance, allows for a much longer life project with higher long term production rates. We could not be more pleased at this stage."

(Company Release)

Ocean Comment: *Assuming the current oil yields achieved with the test reactors in the Curtin University laboratory can be maintained at an industrial scale then the reported resource of lignite would correspond to an in-situ pyrolysis oil resource in the range of 300m to 420m barrels. This represents an increase in the range of 65% to 110% over the 200m barrels in-situ oil volumes which supported the Company's admission onto AIM in Jul'07. The Company's focus has now shifted from resource expansion and definition, to environmental permitting and process optimisation in order to maximise product yields and mix.*

Subject to commercial and technical feasibility (and subsequent financing), the Company has previously announced its intension to produce between 5-20k barrels of oil and distillate products per day (which equates to 1.7-6.8mb of liquid products pa), as well as associated by-products including electricity, activated carbon/ash and metallurgical char (5.4kt per day), potentially from 2018. This production profile assumed the previous resource of 200m barrels in-situ oil volumes.

Over the next three quarters the Company aims to complete its technology definition work with the emphasis shifting from oil generation to the upgrading of the pyrolysis oil into its maximum saleable form. Overall, the Company is comfortable the process works and now is in the process of fine tuning it. Also over this period ongoing pre-feasibility studies are expected to be complete highlighting the updated economics of the project.

The significant resource upgrade further improves the potential strategic value of Salmon Gums Lignite deposit which we believe will become increasingly apparent once the Company can further prove and commercialise its Lignite to Value (L2V™) Coal-to-Liquids process. Current estimates assume a final stable vehicle quality fuel product mix is estimated to be 50% Diesel, 35% Heavy Fuel Oil, and 15% Gasoline.

The deposit is large scale and is shallow in depth, with minimal overburden, free digging, low strip ratio resulting in low projected mining costs and is well positions to service the neighbouring Kalgoorlie/Goldfields region. This region currently consumes ~860m litres pa of diesel of which ~40% is shipped into Esperance, with the remaining 60% transported via rail from Perth. Previous estimates assumed total capex of US$1.3b, opex of only US$18/b and a breakeven oil price of ~US$40/b (generating a 9% ROC). The project is expected to be a lower cost diesel fuel alternative to existing supplies due to the deposits proximity to the primary target market, required infrastructure, low relative mining cost and minimal environmental impact costs.

Spitfire has cash reserves of A$10m, or ~11p p/sh, which is estimated to be sufficient to fund existing commercial and technical feasibility studies. Griffin Mining secured a 39.2% interest in Spitfire in 4Q'08 (at 15p p/sh), to further diversify commodity, geographic and political risk.

Ores ain't ores (Thurs, 16 Jul)

IN iron ore, much of the low-hanging fruit of direct shipping ore projects has already been plucked but there is plenty of scope for beneficiating lower grade deposits. Kate Haycock spoke to Damian Connelly from Mineral Engineering Technical Services. The high grade deposits that have been the backbone of the iron ore industry are a finite resource, even in the massive fields of the Pilbara. The "cream" of the Pilbara projects, such as Tom Price, Mount Whaleback and Mount Newman, are relatively rare deposits in global terms, but the Pilbara and the Mid West regions of Western Australia are host to billions of tonnes of not quite so high grade iron ore.

METS principal Damian Connelly told MiningNews.net the quality of the ore is a key issue, but much of the lower-grade iron ore in the Pilbara and the Mid West region can be successfully beneficiated, especially with the current historically high iron ore prices.

"Quality will be an issue for smaller companies," he said.

"BHP and Rio did pick the eyes out of the Pilbara – they left all the other stuff and said it was too hard … but I think juniors can make it."

Connelly said Fortescue Metals Group proved that a Pilbara-based company could create a market for a different type of ore that required additional beneficiation. In other parts of the world, magnetite iron ore is mined at grades as low as 18% and Connelly said the industry in Australia had been "spoilt" with such high grade direct shipping ores.

"In the longer term, we will have to exploit the lower grade resources. Australia is blessed with iron ore resources, as is Brazil, but I think globally and maybe for long term sustainability we will have to treat those lower grade resources through blending and beneficiation," he added. Connelly said the majors such as Rio Tinto and BHP Billiton also used techniques to get the right balance of contaminants and grade in their ores, including beneficiation, even if it was just to separate shale from the iron ore.

Rio Tinto, for example, blended its ores to control levels of contaminants. However, Connelly said there were some sorts of ore which were simply not saleable.

"Some of these other deposits are a different matter … some ores, you can't beneficiate," he said.

"You have to do the test work – and even if you have direct shipping ore, the lump-fines ratio is very important."

METS is involved at the initial stage of any iron ore development, focusing on processing and how its clients can make a marketable product. This work needs to come early in the process. The group has done work on some projects, mainly overseas, where the ore was simply unsuitable for commercial use.

"We can use things like Qemscan or mineralogy to look at what minerals are there and if they can be liberated. But the fatal flow is high phosphorous," Connelly said.

"The phosphorous ends up in the steel and has to be burnt out or it causes the steel to be more brittle … it produces more slag and it is more costly for the steel mills.

"The phosphorous is in the mineral lattice, so you can't scrub it out, you can't leach it, you can't get rid of it easily."

High silica and alumina levels, while not as serious, also produce more slag and require more coke in a steel mill's furnace to get more heat.

"If you've got a really difficult ore and you're a junior, you should move on. If it is complex and difficult, juniors can't really do those," Connelly said.

In the Pilbara the water table can also pose an issue especially as iron ore mines become deeper, with chlorides from the salty groundwater also an extra that steel mills don't want with their iron ore. Nevertheless, Connelly said most beneficiation techniques for iron ore were generally low cost, "until you start getting into grinding", but the cost-benefit ratio had to be considered carefully.

In the Pilbara, iron ore can be beneficiated using heavy medium drum separators, cyclones and wet high intensity magnetic separation (WHIMS), which can upgrade iron levels from around 59% to 65%.

Magnetite iron ore, of the sort being mined by CITIC Pacific at its Sino Iron project at Cape Preston in the Pilbara, requires a different process entirely that includes cobbing or coarse magnetic separation before fine grinding and then more magnetic concentration. This means more processing and more cost. Despite this, magnetite can make money – the product is more costly for iron ore producers to make, but the concentrate can produce high quality pellets or sinter for blast furnaces, which fetches a higher price.

"If you look at the hematite ores, the Brockmans and the Tom Prices, it was pretty dumb … once you start getting into beneficiating low grade ores or processing magnetite it starts to get a lot more interesting," Connelly added.

New technologies in beneficiating are making it easier as well. These include much stronger magnets which can produce up to 25,000 gauss (a measure of magnetism). "The technology in jigs has improved in capacity and efficiency," Connelly said.

"Even in crushing, you have some of the biggest crushers in the world up at FMG's Cloudbreak at 800,000 kilowatts, and now companies are looking at 1 megawatt crushers – they are just getting larger and more efficient with better economies of scale."

(miningnews.net)

Rio boosts iron ore output (Weds, 15 Jul)

MINING giant Rio Tinto has increased global iron ore production for the June quarter by 8% year-on-year, despite tougher market conditions affecting demand. The company's flagship Pilbara iron ore operations increased production by 11% on last year to 53 million tonnes, 47% higher than the March quarter, when operations were affected by heavy rainfall and the six-week closure of the Robe Valley railway.

Rio said its Pilbara infrastructure operated at close to full capacity during the June quarter.

Shipments totalled 52.5Mt, which was 33% higher than the March quarter and 14% higher than the June quarter of 2008.

During the quarter, four ships berthed simultaneously at the Cape Lambert port, which was a milestone for the company.

Rio said in the six months to June 30, around half its iron ore had been sold on the spot market.

The company said that while it had settled iron ore contracts with Japanese, Taiwanese and Korean customers, remaining customers were paying a provisional price or the spot price.

Rio's Canadian iron ore production increased 5% to 2.5Mt.

The company said iron ore guidance for 2009 remained at around 200Mt and it expected Chinese steel demand to continue to improve for the remainder of the year.

Rio walked away from a deal that would see Chinese aluminium producer Chinalco take a stake in its iron ore operations, in favour of a joint venture with BHP Billiton.

For the June quarter, mined copper production was down 1%, while refined copper production increased 23% on the same period last year.

Recoveries at Kennecott Utah Copper and Grasberg increased, which offset lower grades and continuing operational issues at Escondida.

A 45-day concentrator shutdown will occur this month at Escondida to remedy the mill motor problems.

Bauxite production fell 14%, alumina production was down 6% and aluminium output fell 5% on June 2008.

The company said that while the aluminium market remained tough, improvements were seen during the second quarter.

As reported yesterday, Rio subsidiary Energy Resources of Australia boosted uranium production by 33% on last year, while Rio's Rossing uranium mine saw a 3% drop in production due to a two-week planned shutdown in June.

Australian hard coking coal production decreased 7% on 2008 figures due to wet weather, but rose 38% on the March quarter.

Diamond production at Argyle was down 86% on last year, while Diavik production fell 44% due to scaling back of operations caused by lower demand.

Pre-tax and pre-divestment exploration and evaluation expenditure for the six months to June 30, 2009, was $US242 million ($A303.9 million), down from $401 million in the corresponding period of last year.

The reduction is part of Rio's strategy to reduce operating costs by $2.5 billion this year.

"We continue to press ahead with actions to reduce costs across the board, align production with demand, and bring down levels of net debt," Rio chief executive Tom Albanese said.

"We have successfully completed our $15.2 billion rights issue this month and during the course of this year we have agreed divestments to the value of $3.7 billion."

(miningnews.net)

Ocean Comment: *Asian demand for bulk commodities was again the key stand out for RIO with new production records within its Pilbara iron ore operations and Australian Coal production recovering 8% qoq. It is worth highlighting that the strength in iron ore demand is very much China centric with RIO still going ahead with its 5 week shut down of IOC (Canada), which sells pellets predominantly to the US and Europe.*

Pilbara iron ore production was a record 53mt (42mt attributable), up 11% yoy and 33% higher qoq (shipments up 47%), relatively to a previous attrib production record of 42.4mt in 3Q'08 at the top of the bull market (See table below). The record level of production continues to illustrate strong market demand for high grade foreign sourced iron ore and the structural change in supply of ore in China. RIO's guidance for total global iron ore production remains ~200mt with the recovery in Chinese steel demand expected to continue into 2H'09. At IOC, production has been suspended from three pellet lines was in the Mar'09 quarter, and a five-week shutdown commenced on July 7th.

Approximately half of the iron ore RIO has produced this calendar year (~38.5mt attrib.) has been sold on the spot market. Pilbara infrastructure operated at close to full capacity as most of the recent expansions were bedded down during the quarter, recovering from the adverse weather in the Mar'09 quarter. We believe these results, particularly at this point of the cycle, further supports the logic behind the proposed BHPB/RIO Pilbara iron ore JV where both party's hope to unlock significant infrastructure and production capacity/synergies.

Rio Iron Ore Production

Attributable Production ('000 tonnes)	Rio Tinto Interest	4Q 2007	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	1H'08	2H'08	1H'09
Corumba	100%	365	508	519	575	430	401	574	1,027	1,005	975
Hamersley - six wholly owned mines	100%	25,799	23,731	26,113	26,653	19,057	19,571	26,834	49,844	45,710	46,405
Hamersley - Channar	60%	1,448	1,484	1,686	1,880	1,179	1,437	1,819	3,170	3,059	3,256
Hamersley - Eastern Range	100%	1,535	1,801	2,195	2,289	1,900	1,958	2,374	3,996	4,189	4,332
Hope Downs	50%	32	538	1,732	1,536	1,662	1,707	2,748	2,270	3,198	4,455
Iron Ore Company of Canada	59%	2,248	2,119	2,402	2,493	2,282	1,853	2,515	4,521	4,775	4,368
Robe River	53%	7,529	7,189	7,212	6,979	5,250	4,717	8,298	14,401	12,229	13,015
Rio Tinto total mine production		***38,956***	***37,370***	***41,859***	***42,405***	***31,760***	***31,644***	***45,162***	***79,229***	***74,165***	***76,806***
% Chg qoq (hoh)								**43%**			**4%**
% Chg yoy								**8%**			**-3%**

Source: Rio Tinto; Ocean Equities

Dioro rejects revised bid as rival talks continue (Weds, 15 Jul)

TAKEOVER target Dioro Exploration has urged shareholders to reject Avoca Resources' sweetened hostile bid and has confirmed it is in confidential talks with various parties over a possible rival offer. The Goldfields-focused producer said today that it had received a number of "expressions of interest" from third parties and had entered into confidentiality agreements covering all aspects of the negotiations.

Dioro has also provided third parties with access to technical data about the company and has carried out site visits at its operations.

"The directors confirm that, since the date of the second supplementary target's statement, they have continued to advance discussions previously held with various parties, have ceased discussions with certain of those parties and have commenced discussions with new parties," Dioro said in its fourth supplementary target's statement, released yesterday.

The recently improved offer of one Avoca share for every 2.4 Dioro shares held, which represents an 89% premium to Dioro's closing price of A39.5c prior to the offer announcement, is currently scheduled to close next Tuesday, July 21.

Dioro was required, in accordance with Australian Securities & Investments Commission regulations, to update the market about its ongoing discussions by no later than July 14, seven days before the end of the offer period.

The company said today it "has complied with its obligations to update shareholders as to the status of discussions with third parties and the real chance that a competing offer may arrive".

Dioro also noted there was no guarantee that discussions would result in an acceptable competing proposal to Avoca's amended offer. The company will update the market on developments.

There has been much speculation that the rival parties include Dioro's joint venture partner at the Frog's Leg underground gold mine, Canadian company La Mancha.

In the meantime, Dioro's board has recommended shareholders reject Avoca's amended bid, labelling it as "opportunistic and not in the best interests of Dioro shareholders".

"An evaluation of all available materials surrounding the bid, by both the company and its advisers, has confirmed the board's belief that the bid is not in the best interests of shareholders," the company said.

"In addition, the Dioro board also believes this belief is being shared by Dioro shareholders, who appear to have seen through the 'value' of the Avoca bid."

Avoca holds a 15.75% stake in Dioro, up from 14.95% when the takeover bid was launched in April, which indicates that less than 1% of Dioro shareholders have accepted the bid so far.

Today, Dioro said the slow uptake of acceptances showed that its shareholders had rejected the amended bid.

The takeover target also noted that Avoca's bid did not meet the value of Dioro's 49% stake in the Frog's Leg gold mine as assessed by the independent expert, KPMG. KPMG has come under scrutiny from Avoca and ASIC over its high valuation of Dioro in the target statement.

Dioro was valued in the range of $1.40-2.28 per share with a preferred value of $1.88 per share.

However, Avoca said the valuation was "out of touch with reality" and that it "bears no correlation to the market price of Dioro's shares", while ASIC has previously requested clarification of the valuation.

Earlier this week, Avoca declared its bid unconditional and has accelerated its payment terms for all Dioro shareholders who accept the offer

Shares in Dioro have gained 4c to 71c, while Avoca added 2c to $1.73 in late morning trade.

(miningnews.net)

BHP, Rio to face hurdles if merging coal units – analysts (Weds, 15 Jul)

Mining giants BHP Billiton Ltd and Rio Tinto could see massive cost savings if their Australian coal businesses merge, but strict competition laws in Europe could create obstacles, analysts said on Wednesday. The miners are considering combining their Australian coal operations, Australia's Herald Sun newspaper reported on Tuesday, citing unidentified sources.

The report follows a proposal by Rio Tinto and BHP Billiton to partner in iron ore mining in Australia.

While a merger of the coal units is seen as a logical move, such a proposal may not come soon as the duo are unlikely to make such bold plans as their iron ore venture proposal is still being scrutinised by European regulators over anti-trust issues.

It's unlikely that they would be considering merging their coal business at this point in time. It may come in the future, but with the iron ore deal on the table, both parties will be devoting all their time and energy on that end,' said Paul Xiradis, chief executive at investment firm Ausbil Dexia.

They also wouldn't want to jeopardise the iron ore deal at a time when European regulators are still examining the proposal.'

BHP and Rio said they do not comment on market speculation.

Rio and BHP, the world's second and third largest iron ore producers, announced a deal on June 5 to create a joint venture with their iron ore operations in Australia.

With mines spanning Australia's coal-rich New South Wales and Queensland states, BHP and Rio Tinto are the world's No. 1 and sixth-largest coal producers, respectively, and analysts reckon a combined coal business would control about 31 percent of the world's seaborne traded coking coal.

With the pair potentially gaining significant market share in the supply of iron ore should the joint venture proceed, a proposition to combine operations in coking coal -- which is also a raw material required to make steel -- would no doubt face tough competition scrutiny, particularly from European regulators.

Europe's competition watchdog, the Competition Directorate General, has the power to force merging companies to sell assets, and even to block the deal completely.

There's no doubt steelmakers in China, Japan, Korea and Europe will protest strongly if it goes ahead, because the pair could end up having a large market share in two key raw materials needed for steel,' said a commodities analyst at a major investment bank who declined to be identified. A merged business would also control about 8 percent of the global seaborne thermal coal trade, putting it between Xstrata Plc's 8.9 percent share and Anglo American's 7.8 percent.

In a bid to sidestep anti-trust concerns, analysts said BHP and Rio could split off their marketing departments from the coal joint venture, a structure they've taken for the iron ore proposal which they've argued would lesson worries about an impact on pricing. However, with most of BHP's coking coal operations already locked in a 50-50 partnership with Japan's Mitsubishi Corp, some analysts pointed out that a separate coal deal with Rio could be difficult.

MASSIVE COST SAVINGS: The newspaper said the two groups were under pressure following a 'merger of equals' proposal by Anglo-Swiss rival Xstrata to Anglo, whereby a marriage of the two would topple BHP from its position as Australia's biggest coal miner.

But analysts say a plan to merge their coal business, if it does eventuate, would be largely driven by cost synergies rather than a way to reclaim market share, with some estimating synergies could be in the range of billions.

'Clearly there will be significant cost benefits. That was part of the platform BHP was looking at when it made a bid for Rio, because BHP believed a combined operation would bring about significant synergies,' Ausbil Dexia's Xiradis said.

(Reuters)

Investec favours gold shares over the metal (Weds, 15 Jul)

INVESTEC Asset Management favours gold equities rather than the actual metal, seeing higher returns from the underlying shares. It is a lot more cautious about silver stocks, regarding them as overvalued. Investec also sees copper and zinc as its favoured base metals as well as iron ore because of improving demand for the product in the United States and Europe as the automotive sectors pick up the pace in manufacturing.

For gold, Investec sees the metal trading in a range of $800 to $1,100 this year, but it sees more value offered by the shares in the companies that mine the metal.

"Right now we have our portfolios more tilted towards the gold equities than gold itself. We see 10-15% upside in the gold price itself whereas we would see more like 20-30% upside in gold equities off current valuations," said Bradley George, head of global commodities and resources at Investec.

He said companies were like to show "top-line"growth as well as improved margins because of some cost deflation stemming from decreased energy and steel prices globally.

"As a result of that average costs for gold miners have moved from $450/oz to sub-$400/oz, which means their operating margin has improved," George said.

The proposed sale of 400 tonnes of gold by the International Monetary Fund to raise capital is unlikely to disrupt the market, he said. The sales will fall under the Central Bank Gold Agreement that limits official sector sales to 500 tonnes a year. So far this year, central banks have sold 85 tonnes of gold, George said, adding that Asian banks were likely to "mop up" the IMF gold, leading to an orderly process that shouldn't disrupt the market too much.

(miningmx.com)

ATW Gold Trumps Orvana In The Battle For Kinbauri, And Now Aims To Move Rapidly To Production Of 250,000 Ounces Per Year (Weds, 15 Jul)

"We're going for it. We just are. We think it's a good acquisition". So says Andrew Bowering, Vancouver-based director of ATW Gold, a company that's just joined the growing ranks of Canadian-listed juniors that have set off down the consolidation trail. In this case ATW's C$0.85 per share all-share bid for fellow Canadian Kinbauri Gold knocks another bidder out of the picture, as Orvana's C$0.55 cash bid now looks dead in the water. That's not the whole story, though, as it's widely thought that Kinbauri also had another cash bid on the table at no less than C$0.70. Following the news Kinbauri's shares jumped from the C$0.55 Orvana-inspired price to around C$0.68, indicating that the market liked the extra interest, but wasn't entirely convinced that the deal will come off. Added into that mix was a general feeling that ATW might be bidding too high, and ATW's own shares dropped by six per cent to C$0.59, taking some of the initial premium that had been on offer to Kinbauri shareholders off the table.

Still, even allowing for that drop, the deal comes in at just shy of C$0.80 per share. At that level it looks like a reasonable one for Kinbauri shareholders, who, on Andrew Bowering's way of thinking at any rate, have been suffering from investor fatigue lately, but who nevertheless were looking for something with more upside than a cash bid when it came to contemplating an exit route. In actual fact, though, Kinbauri shareholders will retain just over 53 per cent of the enlarged company, so they'll still, nominally, be in control. Two of their senior men, Brian McEwen and Brent Butler will run it as President and chief executive respectively, while ATW chief Graham Harris becomes executive chairman. And what do we read into the fact that on the international conference call that was organised shortly after the deal was announced, both Brian and Graham were speaking from Kinbauri's El Valle/Carles site? Perhaps not too much, but on the future production numbers it's clear that the Kinbauri asset will be the flagship.

But what's perhaps more important to investors right now is that the ATW bid is coming in at a price 115 per cent higher than the level at which Kinbauri shares were trading before Orvana made its initial C$0.55 bid. And at their current C$0.66 Kinbauri shares are at their highest level since August of last year. So Kinbauri's El Valle/Carles project in Spain is finally stirring up some interest - at last. With a 2010 production target of 145,000 ounces of gold equivalent per year, you might ask why wouldn't it? But legal tussles with prospective funding partners do not go towards creating a strong rating in any market, and even when it looked as though Kinbauri was putting its legal problems behind it, the market was never clear how it would be funded. ATW's attitude to fundraising is bullish, and in the meantime, ATW already has production, and as Graham Harris says, "the cheques are rolling in".

If this deal is closed off, the recommencement of production at El Valle/Carles would qualify as ATW's second producing mine, following on from the Burnakura mine in Western Australia which has now been in production for three months. ATW's other Australian project, Gullewa, drops to third place in terms of timing, as it still requires drilling, a proper 43-101 resource calculation and a scoping study at the very least before a firm production decision can be made. Still taking them all together it looks as though the enlarged ATW would slide easily into the ranks of the 250,000 ounce producers. With El Valle/Carles showing a total cost per ounce of just under €255 per ounce on US$750 gold and US$2.50 copper there'll be plenty of margin too.

It's not done and dusted yet, of course. So far only a "binding letter agreement" is in place. The next step, according to Andrew Bowering, is an "arrangement agreement". But for those not versed in the niceties of corporate takeover law – and it could get very intricate given that there are three major jurisdictions involved – the important statement is that ATW thinks the deal can be done. "We don't have any issues with shareholder support", says Andrew. "We think we can get that. We think they can get that". What's more, and what's crucial to the future now, is his attitude to future funding. "We're not afraid to raise money", he says, which is good, because El Valle/Carles will require a bob or two – perhaps somewhere between €35 million and €50 million, according to Brian McEwen. Still, the market's been looking up in Canada lately, and not only that, Andrew Bowering reckons there's interest coming out of the US and London too. As far as a fundraising goes, "it'll just come down to what structure it'll be", he says, in reasonably robust fashion. But before we get to all that, the shareholders will have to have their say.

(By Alastair Ford, Minsite.com)

Ocean Comment: *For further details on the current divergence of physical gold and gold equities (which is currently at the largest level since 1984 – the year we have data on a gold equity index). Refer to our June 17th report "Australian Gold Sector update – Norseman ASX listing is expected to support a further re-rating".*

Cape Lambert to take 19% Cauldron stake (Weds, 15 Jul)

Cape Lambert Iron Ore continues its rash of strategic acquisitions, with plans to acquire a substantial slice of junior uranium explorer Cauldron Energy. Shares in Cape Lambert were up 1.5 cents at 33.5 cents at 1327 AEST while Cauldron's shares had inched one cent higher to 31 cents.

Cape Lambert said today that it was set to take a stake of up to 18.7 per cent in Cauldron following the conversion of a $2.3 million convertible note.

Cape Lambert's wholly owned subsidiary Dempsey Resources Pty Ltd will receive 15.33 million Cauldron shares in two tranches, with shares representing about 8.4 per cent of Cauldron to be issued immediately.

The issue of the balance is subject to Cauldron shareholder approval at its annual general meeting slated for October.

Cauldron was recently formed through the merger of Scimitar Resources and Jackson Minerals, with Cape Lambert executive chairman Tony Sage taking the same role at Cauldron.

Cauldron chief executive Terry Topping said in a statement that the company planned an ongoing relationship with Cape Lambert to help it achieve operational and corporate objectives.

Mr Sage said the transaction would provide Cauldron with access to the Cape Lambert's strong balance sheet and corporate expertise.

Mr Sage said Cape Lambert would gain exposure to Cauldron's uranium projects in Australia and Argentina.

Cape Lambert on Tuesday launched an off-market scrip takeover bid for junior mineral sands explorer Corvette Resources Ltd that values the target at 14 cents a share or $16.2 million.

Mr Sage is a non-executive director of Corvette, which advised its shareholders on Tuesday to take no action in relation to the bid.

Cape Lambert said earlier this month that it would take a 37 per cent stake in smaller iron ore explorer DMC Mining - without triggering a takeover - through the conversion of a convertible note and exercise of unlisted options.

It also plans to oust the board of Buka Gold after that company rejected its call for a board seat to reflect its near 20 per cent interest.

Cape Lambert has buyers lining up for several of its assets, particularly the Lady Annie copper mine near Mt Isa in Queensland, which it recently acquired along with the Buka stake and other assets from collapsed miner CopperCo.

(wabusinessnews.com.au)

FMG pushes down costs, ups tonnes (Mon, 13 Jul)

FORTESCUE Metals Group has reduced the direct costs of its iron ore production by some 36% as it ups production rates from the Cloudbreak mine in the Pilbara, though the miner is still trying to drive down costs. Australia's third-largest iron ore miner told the market today its shipping and mining volumes for the fourth quarter of 2008-09 – and the full year – exceeded forecasts.

The company exported 7.98 million tonnes of iron ore during the three months to June 30, up from 6.2Mt in the previous quarter.

That shipping rate brings FMG's total ore shipments for the financial year to 27.3Mt.

The miner has been working to bring costs down and in the June quarter its total direct costs for each tonne of iron ore produced came to $US22.92, 36% lower than the $36.98/t cost in the March quarter.

The company said costs were down thanks to improved efficiencies and a focus on reducing procurement costs.

Full-year costs came in at $27.46/t, which FMG said was "reasonable" but still well short of its goal of becoming the lowest-cost producer in the Pilbara.

FMG has been upping mining volumes as well, with a 36% increase in volumes in the last quarter from 6.5Mt to 8.9Mt, which also helped the cost profile.

The Perth-based company attributed the higher mining rates at the Cloudbreak mine to several factors, including improved performance from the surface mining fleet, pit design optimisation to keep the surface miners in the pit as much as possible, and a mining team restructure that had introduced more productivity and accountability.

Volumes were also up compared to the March quarter because of rain during the first three months of the year.

Mining started at the Christmas Creek operation during the June quarter, although so far only one pit has been opened with only 265,700t of ore mined.

FMG now expects to produce around 35Mt per annum with the rate not expected to rise until a number of improvements are made to the ore

processing facility.

A feasibility study is underway on a front-end wet screen plant, due to be completed in August. Additionally, FMG is building a two-stage sizing facility as part of the processing plant, which it said will assist in oversized materials management.

Managing this material has been a focus for the company.

At the same time, FMG is working on long-term mine planning at Cloudbreak and Christmas Creek, which means considering the size of the infrastructure needed to support both operations.

Finally, the company's out of the money shipping book has also improved with bulk cargo rates on the rise around the world.

(miningnews.com)

Coal of Africa needs funds for expansion (Mon, 13 Jul)

COAL of Africa has finalised the revised mining layout of the Mooiplaats colliery, now forecasted to produce 1.7 million tonnes of coal next year, while its other South African projects might be affected by market conditions. Adverse geological conditions have forced Coal of Africa to revise the mine layout and tonnage schedule, and it now expects to start producing export-quality thermal coal in November at the earliest or the 2010 first quarter at the latest.

Run-of-mine production is forecasted to reach 2.7Mt in 2011, 3.1Mt in 2012, 3.4Mt in 2013 and 3.2Mt in 2014. While development work is underway to gain access to the export-quality coal resources, the company said it was currently producing about 30,000 ROM tonnes of a mid-volatile "lean" coal.

Coal of Africa is expecting South African government approval for a new order mining right by the end of the September quarter for its Vele coking coal project in Limpopo province. Once received, Coal of Africa will spend 350 million rand ($US42.67 million) to complete Phase 1 development of the project, with the modular plant already due for wet commissioning in August.

The second phase aims to double capacity to 5 million tonnes per annum of coking coal, but the company said the timing of this expansion would be dictated by market conditions.

"To double the Phase 1 capacity is estimated to cost a further R200 million and an additional R2.65 billion ($US323 million) is required for Phase 2," Coal of Africa said.

At this stage, the company said it had sufficient cash to complete development of Mooiplaats and the first phase of Vele. The company said its letter of intent signed with steelmaker ArcelorMittal in April for 2.5-5Mtpa offtake from Vele provided for a free-on-rail delivery in return for a free-on-board indexed price.

Coal of Africa said this arrangement delivered a significantly better margin that what would otherwise be enjoyed through exporting the coal. For the company's Makhado project, analysis of core quality is underway. First phase plans for the project to produce 1Mt of saleable coking coal have been estimated to cost R500 million, while R2.7 billion is the projected cost for full-scale development of a 5Mtpa operation.

Coal of Africa said market conditions would determine whether the development of Makhado would be based on full-scale production of 5Mtpa or a similar phased approach as taken at Vele.

(miningnews.net)

Finn Nickel Initiates Voluntary Bankruptcy Proceedings (Mon, 13 Jul)

VANCOUVER, BRITISH COLUMBIA - Belvedere Resources Ltd. (TSX VENTURE:BEL) ("Belvedere") regretfully announces that Finn Nickel OY ("Finn Nickel"), a 100% owned subsidiary of Belvedere, has decided to initiate voluntary bankruptcy proceedings. Voluntary bankruptcy proceedings will not impact the solvency of the Parent company or Belvedere Resource Finland OY. Belvedere Resources Finland OY holds the gold assets of the group.

Further to Belvedere's press release of July 7, 2009, the negotiations between Finn Nickel and other parties, that would have enabled Finn Nickel to continue, have, despite management's and its principle creditor's best attempts, proved unsuccessful. Given the grave cash position of Finn Nickel, its current liabilities and no foreseeable way in the short term, to generate revenues or to re-capitalise; the board of Finn Nickel has instructed Finn Nickel management to immediately initiate proceedings for voluntary bankruptcy.

Finn Nickel's main assets include the Hitura and Sarkiniemi nickel mines, the Hitura and Luikonlahti processing plants, the permitted Hautalampi Ni-Co-Cu project and a number of exploration properties. Belvedere remains the largest creditor of Finn Nickel.

(Marketwire)

Seeing red over Rio (Sat, 11 Jul)

RIO Tinto competitors Fortescue Metals and Brazil's Vale will be called on to supply more iron ore to China with the fallout from the arrest of four Rio executives set to hurt the miner's standing in China as well as its new iron ore partner, BHP Billiton. That is the view of Philip Kirchlechner, Rio's former Shanghai manager and the man who preceded detained Australian Stern Hu in the role in 2001.

Mr Kirchlechner, who held the position for five years, said Rio's reputation in China would be damaged by the latest allegations of espionage and bribes. He said Rio's decision to abandon the $US19.5 billion ($A24.9 billion) tie-up with state-owned Chinalco and immediately announce a separate iron ore deal with BHP was "almost like a slap in the face to the Chinese".

"I think the Chinese will try and encourage other suppliers," Mr Kirchlechner said. "Fortescue has benefited a lot due to a good relationship with China and Vale is a huge beneficiary because their relationship with China is also excellent.

"Both will be strengthened as a result of this.

"I think BHP, though, will be tainted by its association with Rio. The Chinese can't freeze Rio out completely because China is sitting on very low-quality iron ore and high mining costs which makes them somewhat dependent on the big iron ore suppliers - and Rio is the second biggest."

It's unclear whether Rio's business interests in China will be irreparably damaged by claims its four executives stole state secrets by bribing staff of Chinese steel companies.

If China is set on weeding out bribery and corruption in its steel industry, then it could challenge its notion of guanxi, which is tightly woven into business relationships. Guanxi is the act of exchanging favours, which are done regularly and voluntarily, particularly on domestic dealings. While foreign countries are reluctant to operate with the Chinese that way on international deals, executives would have been exposed to this behaviour and potentially put under pressure to conform.

Mr Kirchlechner says it makes allegations of kickbacks and bribes a grey area.

"In the '80s, serious corruption would have been offering a bottle of cognac because China was so poor (and the) cognac constituted a big part of their wage," he said. "Now, because China has money, these sorts of things are more widespread.

"You then get into bigger items like a computer, a job, a visa and you find yourself constantly in an area where you don't want to go but where you feel pressure to do things their way."

With Rio's reputation in China under the spotlight, the global miner will take comfort from its jilted lover, Chinalco, rejecting comments in the China Securities News that quoted its vice-president Lu Youqing as saying Rio had "no business credibility as a company".

Chinalco said Mr Lu's comments were misquoted and they "do not reflect the company's view".

While Rio may have been portrayed as a "dishonourable woman" by some in the Chinese press, Chinalco moved to clear the air, saying it did not wish Rio Tinto any harm.

"Chinalco has been in contact with Rio Tinto expressing our mutual concern for the current situation with their staff," it said. "We have also reasserted that the situation is in no way related to any commercial dealings between Rio and Chinalco."

The statement is the corporate equivalent of the celebrity divorce citing "irreconcilable differences" but while still retaining mutual respect for one another. But at a time when all comments on the relationship between China and Australia are being widely scrutinised, an attack on Rio's credibility would be sure to inflame and escalate the ill feeling. Mr Kirchlechner says Chinalco's denial of any involvement should be taken at face value and that it would be "extraordinary" if the arrests were found to be retribution for Rio's Chinalco snub.

"This kind of behaviour I saw to some extent back in the 1980s, but that is behind us," he said.

"China has moved on since the '80s and the cultural revolution in the '60s. If this was true, it would show that China is stepping backwards. But I cannot believe it."

Rio maintains its surprise at the accusations against Mr Hu and his three colleagues and denies any knowledge.

"Rio Tinto is committed to high standards in business and integrity and takes its ethical responsibilities very seriously," the company said yesterday. But Rio's ability to continue to do business successfully in China is at a crossroad.

Mr Kirchlechner says Rio's relationship with Beijing has been eroding over the past few years. The Chinese have not forgotten the decision of the iron ore companies to drive a tough bargain last year when the commodity was in short supply.

The global financial crisis has prompted a drop in demand, resulting in a weakened value for iron ore such that if China agrees to a 33 per cent discount, then Australia's export revenue is likely to fall by about $13 billion. China's steel makers have been pushing for a price cut as high as 45 per cent, even after Rio's Hamersley iron ore unit struck the "benchmark" agreement with Taiwan's CSC and Dragon, Japan's Nippon Steel and South Korea's Posco at a 33 per cent discount.

"I would say the relationship now between Rio and China has to be described as extremely complex," Mr Kirchlechner said.

"It will take a huge amount of knowledge and diplomacy to get through this."

Feng Juyan, who worked for Robe River before the merger with Hamersley Iron, says China's reputation is also on the line. Ms Feng, who resigned from Rio's China operations and now works for Australia China Trade, said cool heads should prevail until all the facts were known.

"If the matter is not handled properly, then there is a danger that the public could form the wrong perception about doing business with China," she said.

"China isn't the same place that it used to be. The world is watching and we have all witnessed the progress China has made and to damage all that for one incident is not advisable.

"I still think Rio is a good company. If there is anything in this, it will be an individual's behaviour, not Rio's behaviour as a company, and that should protect them to a degree."

(theage.com.au)

Intrepid, Vale in deal over Tujuh Bukit (Fri, 10 Jul)

GOLD miner Intrepid has caught Vale's attention at Tujuh Bukit in Indonesia, with the Brazilian major signing a deal to spend $US40 million ($A51 million) on the project. Under the deal, Vale will spend the $40 million to earn a 60% interest in the copper-gold sulfide deposit. Intrepid's work at Tujuh Bukit has indicated the deposit consists of two areas – an oxide gold-silver cap that sits on top of a sulfide copper-gold porphyry and a high-sulfidation orebody beneath the oxide area.

The Brisbane-based company will be free carried to completion of a bankable feasibility study into the project while also retaining the rights to the gold-silver oxide part of the project. Intrepid and its Indonesian partner, PT Indo Multi Niaga, hope to develop the oxide cap independently. PT IMN has a 20% stake in the project.

The terms of the deal will see Vale pay Intrepid and PT IMN $6 million – $2 million when the deal is formally signed and another $4 million on January 11, 2010 – plus an additional payment of $24 million if Vale decides to move to 60% ownership. The remaining $10 million will be spent on exploring the sulfide copper-gold component of the deposit over the next three years.

Intrepid will remain the manager of the project, but a technical committee including representatives from the two companies will direct work at the deposit. The deal should be set in place by September 30. So far, Intrepid has defined an inferred resource of 2.57 million ounces of gold equivalent in the oxide cap. Drilling of the sulfide area has returned some promising intersections, including 627m at 0.5 grams per tonne gold and 0.5% copper.

Intrepid chief executive Brad Gordon said he was pleased to have such an important and respected partner for the project. "We believe that the terms of this agreement very positively reflect both the sulfide deposit's potential and the real contributions that our team and organisation have to make in its potential development," he said.

Shares in Intrepid, which has an operating gold mine at Paulsens in Western Australia, were last traded at A30c, up 3c or 11% this morning on the news.

(miningnews.net)

St Barbara suspends WA gold mine (Fri, 10 Jul)

Gold miner St Barbara has confirmed it will stop open pit mining work at its Southern Cross mine in Western Australia by the end of the month as it looks at options to fund the redemption of $77 million of convertible notes. The company today outlined its three-year plan that features lower cost, higher margin operations from 2011 onwards, driven by strengthened operational capacity and strong cash flows.

As part of those plans, St Barbara said it will cease all open pit mining operations at the small, low-grade gold deposits at Southern Cross. As a result, the treatment plant at the operation will be operated on the same timetable as the Leonora treatment plan, which is on a week-on, week-off basis.

Southern Cross also includes the underground Marvel Loch mine. Over the six months to the end of June, Southern Cross produced 79,099 ounces of gold, just below the targeted range of between 80,000 and 82,000 ounces. Cash operating costs were in line within the targeted range at $A947 an ounce. Meanwhile, St Barbara's Leonora operations, including the Gwalia mine, performed above expectations however cash operating costs were slightly higher at $A730 an ounce.

St Barbara company secretary Ross Kennedy told WA Business News that around 700 employees and contractors worked at both the Southern Cross and Leonora operations. He said a relatively small portion of employees will be affected by the decision to stop open pit

mining at Southern Cross however the employees will be redeployed where possible at the expense of contractors.

Mr Kennedy said that overall, the total staff, including contractors, at both Southern Cross and Leonora will be reduced by 10 per cent.

In a statement, St Barbara said the three-year plan will be underpinned by the Gwalia and Marvel Loch underground mines. The miner's priority is to drive the Gwalia decline towards the richer and wider part of the ore body with production slated to start later in 2010.

St Barbara said it had enough funds to meet the additional planned investment in Gwalia, and other operations, for fiscal 2010, however its current cash position does not cover the full redemption of $77.1 million of convertible notes on June 4 next year.

Earlier this year, St Barbara raised $75 million to partially buy back $22.5 million from convertible notes, less than the targeted amount due to a strengthening note price. The company said it is investigating a range of options to cover the potential shortfall from the redemption of the convertible notes, including a full or partial restructure of the notes, refinancing a bank facility or the divestment of non-core assets.

(wabusinessnews.com.au)

Ocean Comment: *The strategic review undertaken by new CEO/MD Tim Lehany was expected by the market however we believe the results are significantly more disappointing than most were anticipating. The Company has announced major downgrades of production and earnings forecasts, and highlighted the likely need for yet another capital raising. We believe the market will now focus on the Company's ability to raise additional funding or to refinance its remaining convertible notes which are initially due in June 2010. The Company has raised a total of ~A$365m in new equity since Dec'07 and failed to deliver on just about every major target. Not only does the Company's new management team have a significant task ahead of it turning around current operational performance and managing the technical risk of Gwalia Deeps, but it also has to resurrect St Barbara's reputation. To illustrate the later point its last two capital raisings provide very good examples:*

1. *Feb'09: SBM raised A$75m to strengthen its balance sheet, facilitate the partial buy back of outstanding convertible notes at a discount (only A$22.5m of notes have been bought back) and/or fund the potential full redemption in Jun'10 (A$77.1m still outstanding). Since this fund raising, and the Mar'09 quarterly accounts (only released in April 24th), the Company now believes it will not be in a position to fully repay the outstanding debt and finance the first year of the recently complete Three Year Plan. Obviously this is a significant shock to the market particularly given the favourable Australian Gold price over this period.*
2. *Jun'08: SBM raised A$120m to: fund the remaining capex of Gwalia; improve the productivity/efficiency of the Southern Cross plant; and sustain a high level of exploration in order to increase the Company's ore reserves. We have subsequently seen further capital required for Gwalia and planned capacity utilisation of the Southern Cross plant cut from 100% to 50%. Back in Jun'08 the Company's forecast production rate at Jun'09 was expected to be 450kozpa. The actual production rate was only ~298kozpa and the 450kozpa+ production target has now been pushed out until at least 2013.*

The result of the review has been a shift in focus towards lower cost, higher margin production rather than the previous pursuit of higher levels of production based on full utilisation of the Southern Cross treatment plant. The earnings down grades are driven from: lower production from Southern Cross, due to the cessation of the low margin open pit mining; lower production at Leonora for the next 2 years, while underground development is increased to move into the higher grade areas of the orebody; and the Company continuing to struggle to control its cash costs. Production from high cost mines still dominate the Company's current production profile and the last quarter again saw cash costs above guidance (A$748/oz actual verse guidance of A$689-734/oz – with misses coming from both assets). Total production for the June quarter was 74.432koz (within guidance 70.1-75.1koz), with Leonora providing 33.8koz at a cash cost of A$542/oz while Southern Cross again disappointed with production of 40.63koz at a cash cost of A$919/oz. Underground development at Gwalia Deeps has continued to not to perform as well as the Company had expected in its original feasibility study and as such it has not reached the high grade areas of the orebody. Further steps have been taken to improve its underground development rates.

The Company's efforts going forward will to be to focus on higher grade underground mill feed from the Gwalia and Marvel Loch. Gwalia at Leonora is the Company's flagship asset and has a current reserve of 1,730koz @ 9g/t (as at June 30th 2008) and is expected to significantly improve the Company's average cash costs and level of production. In the next year the Company aims to drive the Hoover decline to the deeper and higher grade part of the orebody, below 1,260 meters from the surface. FY'10 guidance for Gwalia is for 95-110koz of production at a cash cost of A$630-700/oz with average grades of 6g/t (2H'09 actual production was 55.2koz at a cash cost of A$730/oz). Operations at Gwalia are expected to improve in FY12 to 190-210koz of production at a cash cost of A$445-500/oz with average grades of 11g/t.

Following the review, the Southern Cross treatment plant will be operated on the same campaign milling basis as at Leonora treatment plant (which is operating at 50% utilisation, on a week-on/week-off basis), relative to the previous 100% utilisation strategy. Despite the change in milling and closure of high cost, low grade open pits from Jul'09, forecast production from Marvel Loch at Southern Cross is expected to be 110-130koz at a relatively high cash cost of A$840-930/oz in FY10 (2H'09 actual was 79koz at a cash cost of A$947/oz). Current reserves are 470koz @ 3.2g/t (as at June 30 2008), and this high cost production forecast relies on further conversion of resources to reserves just to sustain production levels into FY12. An A$3.6m resource definition budget has been allocated for FY10.

The Company has stated that the carrying value of its assets will be reassessed for the FY09 accounts. In Feb'09 the Company announced exceptional charges for the first half of between A$19-25m relating to its investment in Bendigo Mining, write downs of open pit assets at both Southern Cross and Leonora deposits, with a further A$3m in restructuring/redundancy costs. We would expect further significant write-downs, particularly at the Southern Cross operation, following this review.

St Barbara's cash at June 30th was A$78m, including A$24m in bank guarantee facility. The Company has highlighted to the market that existing cash reserves and forecast cash flows are not estimated to be sufficient for the Company to fully redeem its outstanding convertible notes (currently A$77.1m) which have an early redemption date of 4th June 2010 or ultimate maturity in Jun'12. We believe the market will increasingly focus on the Company's ability to raise additional funding or to refinance its remaining convertible notes. Factors which have negatively impacted the Company's Jun'10 cash forecasts are: lower production from Southern Cross (-40koz), as projects are deferred; Gwalia production deferred (-30koz); cash flow to be directed to Gwalia mine development for longer term growth; inability to arrange "normal" working capital; and potential for the WA Government to lift its moratorium on environmental bond rates from Dec'09. We see there being further downside risk to the aforementioned factors and believe the Company's future is highly dependant on the Australian Dollar gold price and its ability to renegotiate the convertible note and/or again tap the capital markets – after all this asset has failed before.

The Company is pursing a number of potential funding options to improve its financial position including: Tarmoola sales process; other asset sales including its 10% stake in Bendigo Mining (an potential overhang which is likely to impact the stock price performance of Bendigo in the immediate future); arranging a new facility to meet working capital requirements; replacing the current cash backed bank facility; and discussions with convertible note holders (the notes are listed on the Singapore Exchange Securities Trading Ltd) regarding removal of June 2010 put option.

Under the Three Year Plan the Company is expected to be self funding from FY11 onwards.

Where iron is bigger than oil or gold (Fri, 10 Jul)

HONG KONG — Oil, gold and rice are the commodities that often grab headlines. But for countries like China and Australia, it is the price of iron ore that can determine whether their economies go boom or bust. For months, China has been locked in an intense, behind-the-scenes dispute over iron ore pricing with the world's top miners, having refused the price that steel makers in other major countries like Japan and South Korea had already accepted. The price haggling is an annual ritual that pits China, now the world's third-largest economy, against exporting countries like Australia, as each acts in its best national interest.

In the latest escalation of tension in negotiations this year, China has detained an Australian national who is the chief negotiator for one of the world's mining giants, Rio Tinto, and accused the person of stealing state secrets. Three Chinese nationals working for Rio Tinto have also been detained.

Whatever the details of the accusations, the detentions underscore the growing importance and extreme sensitivity of what might to outside eyes appear an arcane, dull and mysterious business: iron ore. It may not command the political attention of oil — over which wars are waged — but iron ore ranks among the most important commodities in the world, the main ingredient in steel that goes into construction, bridges and ships.

China, which is rapidly expanding its cities, imports about half the world's supply each year. Japan, the world's second-largest importer of iron ore, imports about 15 percent. South Korea, Germany and France follow. About 850 million tons of iron ore were shipped around the world in 2008. With prices averaging about $90 per ton last year, the market totaled between $75 billion and $80 billion.

Still, the intricacies of the iron ore market remain below most people's radar. No wonder, as most of the world's ore, unlike oil or stocks, is not traded on global exchanges. Instead, contracts are agreed upon annually between producers like Rio Tinto, BHP Billiton and Vale — which account for three-quarters of the market — and the steel makers who buy the ore, like Bao-steel Group of China and Nippon Steel Corp. of Japan.

Each year, these companies meet behind closed doors in talks that can last as long as six months to determine the price at which various types of ore are to be shipped during the next year. This benchmark contract system accounts for about 70 percent of the market and is a system that gives miners the predictability they need to make the huge capital outlays needed to extract the ore from the ground. Buyers also enjoy that predictability. But with so much of the price fixed a year in advance, the stakes are huge. And this year, with the jury still out on how rapidly the world's economy — and with it the demand for iron ore — will recover, the annual round of pricing negotiations has been especially intense.

Japanese and South Korean steel makers recently accepted a price 33 percent below the previous year's level. But breaking the usual practice of adopting these earlier agreements, China has dug in its heels and is holding out for a larger reduction, of as much as 45 percent. It can afford to. China's growing economic importance, especially in a year of crisis like this one, has given the country's negotiators unprecedented clout.

"In the last 15 years or so, the global market has gone from 400 million tons a year to about twice that — and all that has been because of demand from China," said Peter Strachan, an independent analyst in Australia. "In the last five years or so, China has become absolutely dominant in the marketplace."

In the world of iron ore trade, the relationship between China and Australia is especially tight-knit. China takes up 80 percent of the ore shipped from Australia, said another analyst, who spoke on condition of anonymity because he was not authorized to speak to the media. The arrests could hardly have come at a more critical juncture in the negotiations, he said.

(nytimes.com)

The auto scrappage incentive schemes; how do platinum and palladium fare? (Fri, 10 Jul)

The headline news in the autos sector appears to be positive for the platinum group metals - but the medium term impact may spell bad news for 2010. GM's petition to a federal bankruptcy court to terminate its existing supply agreement with Stillwater (GM blasted on move to drop Stillwater palladium and rhodium supply contracts) would have no net effect on the platinum group metals markets in terms of offtake, although if approved it would change the trade flows somewhat. The return of the sector to the headlines following GM's approval for bankruptcy discharge and the new US cash-for-clunkers legislation prompt a brief review of the state of the PGM markets and the changing fortunes of the auto sector.

In 2008 the automotive sector accounted for 48% of platinum industrial demand and 46% of palladium industrial demand. These figures are based on GFMS Ltd Annual Platinum and Palladium Survey, and refer to net demand for autocats, after the impact of scrap return, which is sizeable and increasingly important. Total demand for platinum in emission control catalysts in 2008 was 118.6 tonnes, while scrapped catalysts generated 31 tonnes, almost twice the amount thrown off in 1999. The palladium scrap story is much more dramatic; in 2008 autocats accounted for 137 tonnes of palladium, while scrap generated 37 tonnes - 6½ times as much as in 1999.

This massive surge in palladium-bearing scrap stems from the heavy palladium usage in emission control catalysts in the late 1990s, especially in the United States, and it's not over yet. Significant growth in palladium scrap return is likely for at least the next two years as the available pool of metal becomes ever deeper. Platinum scrap return is also expected to continue to grow as the proportion of scrapped cars that bear catalysts continues to rise.

And it is entirely possible that in the next few months there will be a further upward blip in this rate of scrap return. Scrappage incentive schemes are already in place in a number of countries in the EU, and are already particularly effective, notably in Germany. J D Power has reported that auto sales in Europe in June were up by 4.1% year-on-year, with a gain of over 40% in Germany while Italian sales gained 12% and France, 7% - although Spain and the UK are lagging badly. When President Obama signed the CARS legislation (Car Allowance Rebate Scheme) in late June, otherwise known as the $1 billion "cash-for-clunkers" bill, which offers rebates of up to $4,500 per vehicle for motorists scrapping their older, thirsty cars for newer, more fuel-efficient vehicles, there was some feeling in the markets that this would be a boost for platinum and palladium demand, since there has been something of a hiatus in the industry, with buyers holding off ahead of the implementation of the scheme. This will certainly be the case as far as auto sales in themselves are concerned and the first impact will be felt in the final week of July and then in August.

The impact on the PGMs may not be quite as positive longer term, however. While all the new vehicles will carry emission control catalysts, the vehicles' smaller size and better efficiency implies lighter PGM loadings, while the majority of the cars coming back will be bearing spent or partially-spent catalysts, and therefore accelerating the rate of return of scrapped material. It is perfectly possible that in some cases the impact will be more scrapped metal returned than new metal absorbed.

Furthermore, looking on a more global basis, some of these European scrappage plans draw to a close in the next few months. The German scheme finishes at the end of this year and the markets are expecting domestic auto sales to fall away sharply. At this point, regenerated secondary PGMS will be returning to the market.

So while the scrapped incentive scheme may be giving the auto sector a boost, it may come back to bite the PGM markets in the tailpipe.

(mineweb.com)

June China iron ore imports second highest ever (Fri, 10 Jul)

At 55.29 million tonnes China's iron ore imports in June were the second highest on record. Half year figures 29.3% up on 2008 H1. China's iron ore imports in June hit 55.29 million tonnes, up 3 percent from May to reach the second highest level on record, according to data released by the General Administration of Customs on Friday.

In the first six months of the year, total imports reached 297.18 million tonnes, up 29.3 percent from a year earlier, with steel mills and traders continuing to confound state efforts to reduce volumes. China's rising iron ore imports have undermined its position in talks with miners for lower prices.

Steel product exports in June were at 1.43 million tonnes, up 6 percent from the previous month, while imports were at 1.63 million tonnes, a similar level to May, customs said. The China Iron and Steel Association has sought to cajole traders and small mills into cutting iron ore imports, in an attempt to bolster its position during protracted contract price talks with foreign miners Rio Tinto, BHP Billiton and Vale.

Despite a surge in stockpiles and crackdown threats from CISA and the Ministry of Industry and Information Technology, iron ore import volumes slowed only slightly after reaching record highs in March and April.

(Thomson Reuters)

Highlighted Research:

Spitfire Oil Ltd - 69% increase in JORC reported resource further improves a significant scale, long term lignite project (July 16th)

News: Spitfire Oil ("Spitfire"; AIM:SRO) has announced a significant increase in its 100% owned Salmon Gums lignite deposit in the south-east of Western Australia. The reported Resource of lignite is estimated to total 876mt, including 406mt in the Indicated category and 470mt Inferred (at 4m coal thickness and 45% ashdb cut-off).

The new resource is a 69% increase in total tonnage, previously 519mt of Inferred lignite (at 5m coal thickness and 30% ashdb cut-off), and enjoys an increase in confidence with 46% of the total resource in the Indicated category for the first time. The updated resource follows a 1 ½ half year drilling programme which included 420 new drilled and cored holes for a total of 12,624m.

On July 6th the Company applied for 4 mining leases in addition to the 2 leases applied for in Jul'08 (covering 9,855 hectares), bringing total area under application for mining leases to 27,660 ha. The Company believes these applications for extensive mining leases covering the resource are an important step towards commercial production.

Implications: Assuming the current oil yields achieved with the test reactors in the Curtin University laboratory can be maintained at an industrial scale then the reported resource of lignite would correspond to an in-situ pyrolysis oil resource in the range of 300m to 420m barrels. This represents an increase in the range of 65% to 110% over the 200m barrels in-situ oil volumes which supported the Company's admission onto AIM in Jul'07. The Company's focus has now shifted from resource expansion and definition, to environmental permitting and process optimisation in order to maximise product yields and mix.

Subject to commercial and technical feasibility (and subsequent financing), the Company has previously announced its intension to produce between 5-20k barrels of oil and distillate products per day (which equates to 1.7-6.8mb of liquid products pa), as well as associated by-products including electricity, activated carbon/ash and metallurgical char (5.4kt per day), potentially from 2018. This production profile assumed the previous resource of 200m barrels in-situ oil volumes.

Over the next three quarters the Company aims to complete its technology definition work with the emphasis shifting from oil generation to the upgrading of the pyrolysis oil into its maximum saleable form. Overall, the Company is comfortable the process works and now is in the process of fine tuning it. Also over this period ongoing pre-feasibility studies are expected to be complete highlighting the updated economics of the project.

The significant resource upgrade further improves the potential strategic value of Salmon Gums Lignite deposit which we believe will become increasingly apparent once the Company can further prove and commercialise its Lignite to Value (L2V™) Coal-to-Liquids process. Current estimates assume a final stable vehicle quality fuel product mix is estimated to be 50% Diesel, 35% Heavy Fuel Oil, and 15% Gasoline.

The deposit is large scale and is shallow in depth, with minimal overburden, free digging, low strip ratio resulting in low projected mining costs and is well positions to service the neighbouring Kalgoorlie/Goldfields region. This region currently consumes ~860m litres pa of diesel of which ~40% is shipped into Esperance, with the remaining 60% transported via rail from Perth. Previous estimates assumed total capex of US$1.3b, opex of only US$18/b and a breakeven oil price of ~US$40/b (generating a 9% ROC). The project is expected to be a lower cost diesel fuel alternative to existing supplies due to the deposits proximity to the primary target market, required infrastructure, low relative mining cost and minimal environmental impact costs.

Spitfire has cash reserves of A$10m, or ~11p p/sh, which is estimated to be sufficient to fund existing commercial and technical feasibility studies. Griffin Mining secured a 39.2% interest in Spitfire in 4Q'08 (at 15p p/sh), to further diversify commodity, geographic and political risk.

Key Events: Further developments for Spitfire in 2009 are expected to be: The proposal for preferred reactor configuration(s) that may be used at a commercial scale; Oil yield from kiln and fluidised-bed reactors, and oil characterisation;Preferred reactor configuration(s) for future industrial operation; More detailed characterisation of the pyrolysis oil samples to understand their chemical composition in relation to their upgrading and proposal for preferred route of oil upgrading;A small rig will be set up to investigate the hydrotreating/upgrading of the pyrolysis oil; and in early 2010: Conceptual design of the whole process.

RELATED RESEARCH:

Spitfire Oil Ltd: Significant scale, long term lignite project (Jan 12th)

Kirkland Lake Gold Inc: The South Mine Complex continues to significantly grow - updated Reserve and Resource statement (July 15th)

News: Kirkland Lake Gold Inc ("Kirkland"; TSX/AIM: KGI) has announced a significant increase in Reserves and Resources of the South Mine Complex ("SMC") and slight increase across it the entire mine. The updated Reserve and Resource statement is as at the end of Kirkland's financial year April 30th.

During fiscal 2009, the Company concentrated its exploration efforts on the extremely high grade SMC and realised a significant increase in its total inventory; 2P Reserves increased 28% yoy to ~700koz at 0.74oz/t, while total resources increased 19% to ~1.6moz grading 0.75oz/t (refer Exhibit 1). These increases are largely attributable to drifting, definition diamond drilling as well as exploration diamond drilling from both the 5,000 and 5,300 level cross cuts and the decision to focus drilling resources on upgrading ounces from the inferred category in anticipation of increased future gold production.

2P Reserves for the entire mine increased 5% to ~1.4moz at 0.54g/t with total M,I&I resources increasing 4% and now standing at ~3.3moz grading 0.52g/t. Exhibit 2 illustrates that Kirkland's average grade and total inventory levels continue to show significant yoy improvement supporting the ramp up of the Company's multi-stage production strategy; which targets a medium term production of 200koz+.

Implications: While the increase in Reserves and Resources at the SMC in their own right are very impressive, and illustrate the significant potential this complex has for the Company, it must be highlighted that exploration efforts were significantly hampered during the fiscal year due to access restrictions to key drill bays due to the then ongoing ventilation project. In effect, the increase in annual Reserves and Resources has been generated from only ~half a years normalised drilling. The completion of the ventilation project; an increase in development projects; and opening of further drill bays will allow for greater flexibility and strategic exploration which we expect will result in a significant increase in Kirkland's next Reserve and Resource statement.

The fiscal 2010 exploration budget has been set at $7.4m which will include $2.5m of development to provide access for drilling on the SMC and $3.2m for diamond drilling. Exploration drilling will target both the SMC as well as previously untested areas within the '04 Break system – refer to Exhibit 4 for an illustration.

An update Reserve and Resource statement as at the end of Dec'09 is expected to be announced in Jan'10 and we see potential for a further significant increase in total inventory from the SMC towards the ~2moz level. The current resource of ~1.6moz is defined between ~300 vertical feet and across ~2,000 horizontal feet but we believe further extensions and infill drilling within the zone will quickly and materially

add inventory.

Recent drilling in the New South Zone (the largest of the 15 highly mineralised zones that make up the SMC) between the 5,300 and 5,600 elevations has resulted in an 80% conversion rate from inferred resources to probable ore (refer to June 23rd comment "Latest Drill Results From the SMC – 24 oz/t over 14 feet"). The New South Zone has already been extended by at least 130 feet (40m) to the East, as well as returning high grade mineralisation from a number of previously undefined areas surrounded by previously defined inferred resource (including one astounding hit of 23.75oz/t over 14 feet true width - 814g/t over 4.3m).

Key Events: Near term newsflow is expected to be:

- Full Year Results (year to 30 April 09) are expected on July 20th and we anticipate production for FY09 to be 46-50koz and further details to be provided regarding the resolution of the current obstruction in the main pastefill borehole;
- Further positive drill results from the SMC;
- Further guidance regarding the Company's multi-phase production strategy.

RELATED RESEARCH:

Kirkland Lake Gold - Latest Drill Results From the SMC – 24 oz/t over 14 feet (June 23rd)

Kirkland Lake Gold - Stage 1 Achieved Ahead of Schedule – Awaiting Stage 2 - Ocean Equities Research (June 3rd)

Kirkland Lake Gold - 4Q09 Production Report - April Production at Target Rate of 100kozpa - Ocean Equities Comment (May 14th)

Norseman Gold - Significant reserve upgrade increases visibility of Norseman's mine life and illustrates further exploration potential (June 30th)

News: Norseman Gold ("Norseman") has announced an updated Resource statement as at 31st Mar'09 for its Norseman Gold Project. Proven and Probable Reserves have increased 29% to 400koz of gold with the average grade improving 0.9g/t to 8.9 g/t compared to the reserve ounces as at 31st Mar'08. Measured, Indicated and Inferred Resources increased 95% to 3.7m oz (20.0mt at a grade of 5.5 g/t), over the last year benefiting from significant upgrades at the Crown Reef (now 4.6mt at a grade of 8.2g/t for 1.2moz) and North Royal – Pillars (initial resource of 1.2mt at a grade of 14.7g/t for 540koz) deposits. Refer to Exhibit 1 for further details.

Of the total reserves, 310koz (or 78%), are located within the Bullen and Harlequin Declines which are currently the sole sources of ore to the Company's mill, which is operating at ~60%. The remainder of reserves are located in the other underground areas (including the Scotia Decline), open pits and stockpiles.

A gold price of A$1,200/oz has been utilised in assessing the economic viability of the Company's reserve and resource.

Analysis: The new reserve equates to a minimum 5 year mine life at the current annual production rate, and represents a significantly longer mine life when you consider that Norseman has historically produced ~30% of its annual ounces of gold from outside the stated reserve envelope. Based on current reserves and forecast production levels Norseman has a longer mine life than Avoca and Norton (two of the benchmark company's in the Western Goldfields), and enjoys a significantly higher grade (8.9g/t verses 5.3g/t and 1.8g/t respectively). Refer to Exhibit 3 and 4 for a comparison of Norseman's resources and reserves to its peers.

The bulk of the resource and reserve upgrades have come from Norseman's underground targets, with a significant portion of the increase in reserves sourced from the Harlequin Decline which has benefited from further drilling within the high grade Redfin zone.

In our view the significant reserve and resource upgrade provides comfort that despite Norseman being Australia's longest continuously operating gold mine, its tenement's remain highly prospective and further drilling will likely lead to additional material increases in reserves and resources.

The Company continues on with its strategy to improve the operations at Norseman, accelerate regional exploration/project development and pursue its 3rd mine to fill the treatment plant to capacity. The cut-off date for today's updated statement was the end of Mar'09 and consequently it does not include any drilling that has been undertaken place in the current quarter with exploration drilling programmes continuing within both the Bullen and Harlequin Declines, and other regional resource targets. We expected that positive results from its recent and ongoing drill programmes will see the size of the resource and reserve position grow, with the Company to provide further updates in the upcoming weeks/months.

Key Events/Valuation Triggers: Following initial trading on the ASX, first trade date was June 25th, we believe the valuation disconnect between the AIM and ASX subscription price has been absorbed (initial ASX discount was 27%: NGL.LN £0.3075/sh v NGX.AU A$0.45/sh), and that trading in the stock is now likely to again be driven by company fundamentals/news flow and the A$ gold price.

As discussed in length in our recent note "Norseman ASX listing is expected to support a further re-rating" our peer group analysis indicates a valuation range1 of £0.33 p/sh (based on reserves) to £0.86 p/sh (based on resources) for Norseman with a preferred valuation of £0.46 p/sh (last reported quarterly results), implying a 60% uplift based just on current operating cash flow. However, we see further upside coming from Norseman's 3rd mine strategy to increase capacity utilisation of its mill at which time with production at 90kozpa (expected 2009/10) and 125koz (expected 2011/12) implied fair value is £0.59 p/sh (+105%) and £0.78 p/sh (+170%) respectively.

News flow is expected to remain positive for Norseman in the next month with a resource/exploration drilling update (focusing on Redfin, Golden Goose, Royal Couchman, and OK West drilling) expected in the next couple of weeks, ahead of the Jun'09 quarterly report due the week ending July 31st. While the Australian gold price has come off ~10% quarter on quarter (~average A$1,215/oz), we believe Norseman is on track to meet or beat guidance again in the June quarter and generate a headline cash margin of A$500/oz+ (adjusted cash margin ~A$300 – including sustainable capex).

[1] *Our peer group analysis indicates a valuation range of £0.33 p/sh to £0.86 p/sh for Norseman has been adjusted to reflect Norseman's resource/reserve upgrade.*

RELATED RESEARCH:

Australian Gold Sector update – Norseman ASX listing is expected to support a further re-rating (June 17th)

Norseman Gold Mar'09 Quarterly Results & Valuation Update (May 7th)

Norseman Gold plc: Despite strong recent performance Norseman remains cheap on peer group valuation (April 22nd)

United Minerals Corporation - Iron Ore update: New assay results confirm extensive high grade mineralisation in the Railway Boundary Zone (June 15th)

News: UMC has announced the first assay results from its recently completed reverse-circulation ("RC") drilling programme targeting the Boundary Zone within the south-eastern segment of the Railway project. The aim of this programme is to extend Railway's resource and potential high grade/low impurity mineable orebody.

Initial assay results are excellent, confirming visual interpretations previously announced (refer Exhibit 3), and establish the Boundary Zone as a significant new high grade extension of the existing Railway resource. Assay results for holes UI 830 and UI 831 averaged grades of 62.9% and 62.7% Fe over 92m and 136m intervals respectively. Importantly the assay results returned very low impurity levels (Al2O3 ~1.6%), and we believe average grades and impurities would be further optimised with grade controls undertaken in a mining operation.

The assay result for hole UI 831 represents the widest zone of bedded mineralisation delivered to date at Railway and supports our belief that the orebody continues to thicken as it approaches the BHPB tenement boundary (refer to Exhibits 1 and 2). While further drilling is required between holes UI 831 and UI 605 to complete the Boundary Zone section, we look forward to the release in the upcoming weeks of the outstanding assay results from the remaining 6 RC holes – particularly UI 842 and UI 843 which returned visual total mineralised thicknesses of 186m and 184m respectively.

The Company has also provided an update on regional RC drilling which has been progressing in three separate areas: Fork North (a Brockman style target – 24 holes for 1,608m); Coondewana Flats (bedrock Marra Mamba target – 45 holes for 2,646m); and further drilling at Railway East (bedrock Marra Mamba and Brockman detrital targets – 15 holes for 1,402m). Assay results are outstanding for all three targets.

Implications: We expect the announcement of further assay results in the upcoming weeks to highlight that the Boundary Zone will provide an additional 25mt to 30mt of bedded DSO grading an average of 60% to 63% Fe, taking Railway's high grade resource to at least 100 to 110mt+ (and increasing the Company's total resource to 150 to 170mt grading +58% to 63% Fe). Previous drilling and ongoing assay results in the Boundary Zone support the theory that the Railway orebody continues into the neighbouring BHPB tenement and could eventually form a very high grade 150-200mt pod similar to those at BHPB's Area C. We continue to believe that the assay results from the recently completed drill programme, and upcoming follow up programme, will quickly and materially: increase the tonnage of the orebody; improve the economics of the project; and the Company's ability to negotiate infrastructure access.

In our view the Fortescue/BC Iron and BHPB/RIO joint ventures provide two very clear and alternative strategies for iron ore developers in the Pilbara and we feel UMC is very well positioned to gain the necessary access to infrastructure to unlock the value of the Railway deposit. We believe that the Railway orebody is large enough to support production of 4mtpa to 10mtpa under alternative infrastructure strategies. The market is currently paying ~US$60/t for annual production capacity from the juniors in the Pilbara (compared to the implied valuation of the proposed BHPB/RIO Pilbara JV is US$430/t of production and FMG is currently valued at US$484/t). Based on UMC's development strategies, with potential minimum attributable production of 4mtpa via a BC Iron style JV deal with Fortescue, this provides a valuation uplift of at least 200% (inclusive of the capex requirements to get into production), with upside of +250% for 5mtpa (MGS/JV/Commercial haulage agreement with BHPB or RIO) or +550% for 10mtpa (which could be achieved with any of the previous strategies or a combination).

Having taken UMC management on a roadshow through the UK last week we a pleased with the significant process being made with the development of the project's engineering studies and work in progress for production. Within a very dynamic sector where deals are increasingly common, and where we saw the highest volume traded in UMC last week since the Company was listed, we believe the Company is very well positioned to maximise value for shareholders.

Key Events / Valuation Triggers: Near term news flow is expected to be dominated by the development of the Railway prospect and further exploration drilling results including: receipt of outstanding assay results testing the Boundary Zone; a follow up drilling programme to close off in the Boundary Zone; results from initial metallurgical test work at Railway; further development of the ongoing engineering and permitting programmes; results from the new 2009 exploration programme; and ongoing corporate/infrastructure strategy discussions.

RELATED RESEARCH:

Iron Ore Update - BC Iron infrastructure agreement with Fortescue (May 28th)

Iron Ore Sector Update - Rio Tinto agrees 33%-45% iron ore price decrease with Nippon Steel (May 26th)

United Minerals Corp: Iron Ore update - RC Drilling reveals visual intersections and further extensive iron ore mineralisation (May 14th)

Iron Ore Update - The time is nigh on infrastructure (June 11th)

La Mancha Resources - Increasing Production Profile with VMS Opportunity (June 11th)

Source of the Opportunity: La Mancha Resources ("La Mancha" or the "Company") is a gold producer that has mines in Africa (the Hassaï open-pit mine in the Sudan and the Ity open-pit mine in the Côte d'Ivoire) and Western Australia (the Frog's Leg underground mine) and has a fourth mine scheduled to commence production in 2010 (the White Foil underground mine in Western Australia).

Gold production for the year to 31 December 2008 totalled 72koz, and this is forecast to increase to 95koz in 2009, which we forecast will deliver a net profit of C$9.7m.

La Mancha also has an exciting VMS project that is quite advanced (currently defining a resource and awaiting an internal scoping study) in the Sudan, where the Company has proposed a conceptual target of 60mt of high grade copper and gold mineralisation (with additional zinc and silver).

Analysis: La Mancha was born out of the spin off of Areva's gold assets into a Canadian listed exploration company in 2006. The Company had a tempestuous first couple of years, with operational difficulties in the Sudan (primarily associated with the transition from one ore type to another) and the Côte d'Ivoire (where the Company's effective interest in the Ity mine was reduced from 51% to 45.9%). In addition, La Mancha was exposed to the Canadian Asset Backed Commercial Paper debacle and as a result had to go to Areva for financial support. From the time of the acquisition through to November 2008 the share price fell from C$1.30 to a low of C$0.04.

However, over the last six months, the Company has staged a dramatic turnaround. The Frog's Leg mine in Western Australia, which came into production in May 2008, has performed ahead of expectations and a revised mine plan should increase production rates still further. The Company is getting to grips with the processing of the quartz ore at Hassaï, White Foil is scheduled to come on stream in 2010, and the VMS exploration drilling in the Sudan suggests that the Company could have a large polymetallic deposit as big or bigger than Nevsun Resources' Bischa deposit in Eritrea (currently under construction).

Most significantly, from an investor's perspective, the Company has turned a corner from being loss making to generating significant cash flows – whereas the first 9 months of 2008 saw a net loss of C$1.3m at the EBIT level, the fourth quarter was profitable with a positive EBIT of C$1.3m. This momentum has continued into 2009 with EBIT for the first quarter of C$6.2m, and we are forecasting EBIT for the full year of approximately C$15m (on an assumed gold price of US$900/oz for the remainder of 2009). The Company's share price has risen dramatically as a result of this turnaround, and now stands at C$0.91, having been one of the best performing gold stocks over the last six

months.

We feel that this momentum is set to continue, with La Mancha's production anticipated to grow to 150koz by 2011, while at the same time the Company will be developing the Hassaï VMS deposit into a potentially world class mine which could see production as early as 2013.

Valuation Summary: Our primary valuation method is to compare our forecast cash flows with those of a peer group of small to mid-cap gold miners that have African exposure (or similar country risk). An analysis of these figures shows that the peer group average would imply a valuation for La Mancha of C$1.54 per share.

This is backed up by an analysis of the value that the market is ascribing to the peer group's 'ounces-in-the-ground', and ounces of production. An average of these four multiples (2009e production, 2010e production, reserves and total resources) values La Mancha at C$1.55 per share.

We are not surprised that La Mancha is trading at less than its implied cash flow multiples as we are well aware that many investors view the Sudan as a higher risk territory than other countries in Africa such as Mali and Ghana but we think that this analysis shows that valued solely on its gold operations, La Mancha has upside risk of up to +70% from the current levels. We are also aware that in 2009, over 40% of La Mancha's production will come from Australia which should reduce the Company's overall country risk profile.

We also highlight one thing that this analysis clearly shows, and that is that the market is ascribing absolutely no value to the VMS potential at Hassaï. Whilst the VMS project is clearly too early stage to put a dollar value on at the moment, we feel that the project is shaping up to be a truly world-class VMS deposit and that the market should start to give La Mancha a 'blue-sky' premium for this as it releases more data such as the resource statements and scoping study due in the third and fourth quarters of 2009.

RELATED RESEARCH:

La Mancha Resources - Dioro Exploration's Target Statement - Frogs Leg Valuation (May 28th)

La Mancha Resources: Quarterly results for end March 2009 - Ocean Equities Comment (May 12th)

Greystar Resources - Near Surface Gold Found 3km from Angostura (June 3rd)

News: Greystar Resources Ltd ("Greystar") has announced today that it has had success with its regional exploration drilling programme with multiple intersections of gold mineralisation from the Mongora area, 3km south of Angostura. This drilling is part of a 10,000m programme that the Company has initiated to test satellite targets for oxide mineralisation which may have the potential to enhance the economics of the Angostura operation by extending and/or expanding the oxide treatment in the early years of mining. Much like at Angostura, the mineralisation at Mongora comprises higher-grade intercepts contained within broader zones of lower grade gold mineralisation. Highlights of the higher grade areas includes:

- 36.7m @ 1.11g/t Au & 3.5g/t Ag
- 10.6m @ 3.77g/t Au & 3.5g/t Ag
- 1.05m @ 16.3g/t Au & 3.7g/t Ag
- 2.85m @ 8.53g/t Au & 1.7g/t Ag

4,138m of the planned 10,000m has now been completed. Preliminary metallurgical testing is underway.

Analysis: These results from the Mongora area are encouraging for Greystar's search for more oxide mineralisation. If the Company can identify sufficient oxide ore to justify the establishment of infrastructure to extract and transport this ore to the intended plant at Angostura, it could improve the economics of the project as the oxide ore has higher recoveries and is lower cost on a unit basis. We await the completion of the drilling programme and also the metallurgical testing to see whether these satellite targets will contribute any ore to the Angostura project.

Upcoming catalysts/news flow: An update on the further metallurgical and geotechnical test work currently in progress. / Completion of the second phase of the feasibility study in 4Q'09. / Further drilling results form the satellite deposits.

RELATED RESEARCH:

Greystar Launches Feasibility Study for Angostura (June 1st)

Chromex Mining plc: Interim results for the half ended Mar'09 (June 3rd)

News: Chromex Mining ("Chromex") has announced its results for the 6 months ended Mar'09. The half generated the Company's inaugural profit despite difficult trading conditions with a profit before tax of £81,000 generated on turnover of £1.613m. Earnings per share for the period was £0.06.

Mining has been suspended at Stellite to allow existing stockpiles of semi beneficiated product to be used up as construction of the new processing plant took place. Construction is now complete, on time and within budget, with first sales of beneficiated product to be achieved this month. The plant can produce a range of products including chemical grade and metallurgical grade sands, but the primary beneficiated product initially will be a 44% Cr_2O_3 concentrate which is expected to command a premium price in the market and provide the Company significantly more leverage to an improvement in market demand and pricing.

Following the positive amendment to the Mining Right at Stellite (achieved Mar'09 16th), test work will shortly commence on the potential extraction of Platinum Group Metals ("PGMs") and gold from the plant tailings stream. The Company has stated that the PGM and gold grades of the Middle Group chromite horizons of the Stellite resource are "encouraging", and that they may substantially improve the economics of the lower grade reefs and could be processed either by adding a flotation plant to the back end of the recently constructed gravity concentration plant or by sending the tailings out for toll treatment.

Chromex remains confident that the challenge by Samancor Chrome against its Mining Right at Mecklenburg will be unsuccessful. While no date is yet to be provided for the dispute in the High Court the Company's best estimate is that the case may not be settled before early 2010 at which time, subject to an improvement in market conditions, a decision is likely to be made as to the timing of development for the Mecklenburg mine.

The Company has announced that Phoevos Pouroulis and Guy Gibbons are stepping down from the Board effective May'09. Phoevos's resignation is solely to avoid any potential conflict of interest as a result of him establishing a new multi commodity trading company, which will include chrome. Phoevos will remain responsible for Chromex's marketing and sales through his new company. Finance director Guy Gibbons, who was employed by Chromex for a third of his time, has decided to seek a full time position elsewhere.

Implications: The fact that the Company has been profitable over the last 6 months despite the weakness in the chrome market highlights the unique, low cost and flexible business model that Chromex enjoys. The use of plant and mining contractor's verses owner operated labour at Stellite means Chromex has been able to quickly and cost affectively respond to market conditions. At current ROM prices we believe Stellite's resource has a greater value in the ground but following construction of the new processing plant the Company is in an

extremely favourable position to benefit from an uptick in chrome pricing and demand.

Chrome remains our preferred exposure to stainless steel. In our view a recovery in stainless steel demand is likely to be led by China. Given China's ferrochrome and stainless steel capacity, and lack of domestic chrome supply, we believe chrome is a far more leveraged play to an improving stainless steel environment relative to ferrochrome and other stainless steel feed commodities (eg Nickel, Moly etc). Chromex has stated its belief that current turbulence has resulted in further resources becoming available for acquisition and it sees the potential to increase the Company's 41mt of resources, which would improve the Company's strategic appeal.

While Chromex does not want to deplete its open cast resources by sales at low prices the Company has stated it is receiving a number of enquiries for supply of product in addition to the Metalmin offtake which is currently in place. Despite the weak and uncertain chrome/ferrochrome markets Chromex remains cash flow positive and has a healthy cash resource. In our view Chromex is relatively unique in the market as a "pure play" chrome company and offers investors optionality on the chrome price and improvement in the Chinese stainless steel industry.

Upcoming catalysts/news flow: We expect the upcoming news flow to be dominated by: outlook for industry chrome/ferrochrome demand/price; increased value add from beneficiation of internal and 3rd party ore; settlement of the current Samancor dispute over the Mecklenburg asset; and continued review of potential corporate acquisitions.

More Ocean Equities Research:

Kirkland Lake Gold: *SMC Production Commences - Ocean Equities Comment (April 21st)*
Greystar Resources: *1st Phase Bankable Feasibility Results – Reaction and Analysis (Mar 25th)*
Chromex Mining plc: *Fully funded, cash flow positive chrome producer – Initiation of Coverage (Mar 4th)*
Norseman Gold plc: *Company Update – Successful reorganisation of the Company's corporate structure provides a "new" mid tier gold story (Mar 3rd)*
Norseman Gold plc: *Company Update – 3 month report for period ended Dec'08 sets the foundation for a re-rating in the Company's share price (Feb 25th)*
La Mancha Resources: *Initial 2009 guidance and progress on a fourth mine (Feb 19th)*
Sector Review: *Gold – 08/09 Back to Square One? (Feb 4th)*

To request a copy of our complete note please contact us: Tel: +44 (0)207 786 4370 or E-mail: info@oceanequities.co.uk

Commodity and Currency prices in more detail:

Commodity spot prices	Last	1D %	1W %	1M %	12M %	YTD %
Precious Metals						
Gold (US$ / oz)	935.85	-0.35	2.58	0.12	-2.50	6.11
Silver (US$ / oz)	13.28	-0.08	3.07	-6.62	-29.35	16.46
Platinum (US$ / oz)	1161.50	-0.06	4.62	-4.80	-39.79	24.29
Palladium (US$ / oz)	244.25	-1.41	4.05	0.31	-43.07	30.61
Base Metals						
Copper (US$ / t)	5271.50	4.06	11.91	5.82	-36.91	73.30
Nickel (US$ / t)	15861.00	2.33	6.72	8.02	-23.35	36.63
Cobalt (US$ / lb)	13.75	0.00	1.85	22.22	-37.50	19.57
Zinc (US$ / t)	1517.50	3.02	2.40	-1.75	-16.74	28.57
Lead (US$ / t)	1612.00	2.50	1.70	-2.33	-18.85	59.29
Bulk Metals						
Iron Ore - China Fines CFR (US$/t)	87.00	5.45	6.75	13.73	-52.97	10.13
Iron Ore - China Pellets CFR (US$/t)	104.50	12.97	2.45	-0.48	-50.94	-0.48
Coal - NYMEX Yr1 Fut (US$/t)	54.35	-0.17	-1.74	-13.01	-52.94	-9.19
Chrome - FOB RSA Spot (CNY/t)	155.00	0.00	0.00	10.71	-	-26.19
Energy						
WTI Oil (US$ / barrel)	61.54	3.39	2.33	-12.86	-55.64	37.98
Brent Oil (US$ / barrel)	62.44	-1.42	3.45	-9.58	-53.63	49.40
Baltic Supramax Index	1953.00	3.22	11.66	14.75	-64.32	363.90
Currency	**Last**	**1D %**	**1W %**	**1M %**	**12M %**	**YTD %**
US$ / £	1.64	-0.38	0.16	-0.30	-18.15	12.12
US$ / €	1.41	-0.24	0.38	1.71	-11.08	0.73
US$ / C$	1.12	-0.82	3.61	1.22	-10.68	8.64
US$ / A$	0.80	-0.80	1.77	0.42	-18.26	13.39
US$ / ZA Rand	8.16	-0.48	-0.43	-1.09	-6.70	16.79

Source: Bloomberg

Commentary of the Week:

...Continued from Page 1:

Elsewhere, Australia like a number of resource based economies released some increasingly positive data. A recent example in Australia is a monthly survey by National Australia Bank showed that in June business confidence is back in positive territory for the first time since December 2007, and has been driven by improving sentiment in manufacturing and finance, while business conditions also continued to surge.

Over in the US where the reporting season kicked-off with some trepidation, however Goldman's results pleasantly surprised the market (See "*Goldman Sachs risk-taking pays off (Weds, 15 Jul)*"), and with competitors such as Lehman Brothers and Bear Stearns all but history, Goldman's appears taking up on of the biggest market-share grabs in Wall Street history. Net income in the second quarter was US$3.44b (US$4.93/share) which is more than Goldman's earned in all of 2008 in the thick of the financial crisis. Indeed Goldman's shares are close to levels before Lehman Bros collapsed and remuneration is back towards the highs of last year, it has been asked if 2008 ever happened?

Alcoa (the first major US company to report its numbers each quarter) presented results with better than expected earnings as well as a calming assessment of the company's prospects for the rest of the year. The second quarter net loss was US$454m (47 cents/share), compared with earnings of US$546m (66 cents/share) in the same quarter of 2008. Excluding restructuring, the loss form continuing operations was 26 cents, better than the 38 cent loss analysts were expecting.

Alcoa drastically reduced output, cut its dividend, cut employees and raised US$1.3b since the recession began in an effort to withstand lower commodity prices and growing stockpiles. The changes have saved millions of dollars – US$270m in overhead costs alone so far this year. They also helped the company beat second quarter expectations by a wide margin.

We believe that for reporting season, particularly for the mining sector, the following themes will emerge and highlight that investors should focus not on what projected guidance is, or if results missed guidance, but more what the last quarter was and scope for improvements:

- **Reduced production:** We believe the market will not be looking to punish producers who have cut marginal or loss making production in order to preserve cash balances or unduly deplete current mineral resources. The cost savings companies will have made will position the company for greater output in the coming quarters, particularly if steps have been taken to favourably position the company for a rising price environment.

- **Higher cost of interest:** While some de-leveraging is still possible, generally balance sheets are in a healthier state after many recent refinancing/capital raisings undertaken by mining companies (We just have to look at the global gold sector and over US$4.8b has been raised in the last year (Ocean Equities estimates)). However, with banks trying to maximise margins due to tighter credit markets, interest rates on bank loans have increased, with interest cost likely to surprise on the upside in a number of quarterly results.
- **Impairments & write-downs:** After a tough year of trading and market conditions, it is likely that company auditors will be meticulous in asset valuations going forward and even more so where recent acquisitions are involved. For a more extreme example look at St Barbara - refer to our comment *"St Barbara suspends WA gold mine (Fri, 10 Jul)"*.
- **Currency & foreign exchange:** For Australian and other commodity based currency producers the effect of foreign exchange rates will potentially be a significant factor through the translation of earnings, either directly or indirectly. While there has been fluctuations throughout the year, the US:AUD has averaged ~72cents YTD. Conversely, other sectors such as the PGM producers, may be hard hit with the strengthening Rand.
- **Capital & input costs:** Oil has declined over the past 12 months (12 months until 30Jun'09 average US$70/bbl compared to an average of US$96/bbl over the same period in 2008) and as such could have a positive impact to the bottom line and cash flows, particularly on energy-intensive users who yoy were experiencing significant fuel-related headwinds.
- **One-offs & restructuring:** Many companies will use the results reporting to announce restructuring programmes and cost-reduction incentives to maximise earnings going forward, and by declaring them as "one-offs", this means they can be taken below the bottom line.

We believe the market will be looking for results that will bring cleansing statements and earnings upside going forward. The flurry of recent capital raisings has already shown to be aiming to help balance sheets and position companies for growth. Value will be seen where companies are backing their words with actions and looking to again undertake profitable expansion, leveraging from increasingly evident green shoots.

While the earnings environment will be mixed, we believe that a large amount of the bad news is currently priced in. A key focus will be to company guidance for financial year 2010 with consensus showing that there will be a recovery over the next 24 months, coupled with market optimism as well as signs of a slowing in the global economy abound but underlying population demographics in China and the US are expected to remain firm for the next two years.

Can next year be a growth phase driven by earnings?

RELATED HEADLINE NEWS FROM THIS WEEKS WEEKLY:

- **Rio boosts iron ore output (Weds, 15 Jul) **Ocean Comment****
- **China's forex reserves pass $2,000bn (Weds, 15 Jul)**
- **Goldman Sachs risk-taking pays off (Weds, 15 Jul)**
- **Quarterly jobless rise largest on record (Weds, 15 Jul)**
- **St Barbara suspends WA gold mine (Fri, 10 Jul) **Ocean Comment****

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