

WEEKLY REVIEW

Secular demand based on fundamentals

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Quote of the week: "In a lot of ways the reason Greece has jumped to the forefront is that it may represent the proverbial canary in the coal mine, a sign of potentially bigger problems," (Colin Cieszynski, market analyst at CMC Markets Canada)

Stat of the week: "CONSUMPTION of Swiss chocolates melted with the economic crisis in 2009 but new markets like Australia and China grew sharply, data released by the chocolate makers association shows. Chocosuisse, which groups 18 Swiss chocolate makers, said sales results at home and abroad last year left a "bittersweet taste". (AFP)

Macro Discussion – What does the wider view look like?

- Soros more than doubles gold ETF bet in Q4 (Weds, 17th Feb)
- Private Equity, State Owned Entities, And Sovereign Wealth Funds: The New Arbiters Of Power In The Post Credit Crunch World (Weds, 17 Feb)
- The Big Australian and the Brazil consortium (Weds, 17 Feb)
- Overcapacity Everywhere, Except In Mining (Mon, 15th Feb)
- Few options for Argentina in oil dispute (Sun, 14th Feb)
- Chinese Mining Investments Sweep The Globe (Mon, 8th Feb)

News Review:

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

- Deposit claim boosts African Minerals' hopes (Thurs, 18 Feb)
- Tanzania gem saga nears end as buyer eyes profit in break-up (Weds, 17 Feb)
- Anglo sells Tarmac European assets (Weds, 17 Feb)
- Iron-Ore (Tues, 16th Feb)
- Chromex Mining Plans To Double Its Output Of Chrome Products By September (Tues, 16th Feb)
- China and India - the Asian gold-buying phenomenon (Mon, 15th Feb)
- Beowulf's Ruotevare deposit contains significant iron ore resource (Mon, 15th Feb)
- Ramelius cashes out in bidding war (Fri, 12th Feb)
- Ex-BlackRock manager joins Petropavlovsk (Fri, 12th, Feb)
- Indian Farmers Fertiliser Co-operative buys GrowMax stake for potash project (Fri, 12th Feb)
- Newcrest eyes partners for WA project (Fri, 12th Feb)
- Chinese steel mills close to 40% iron ore price rise (Fri, 12th Feb)
- Rio profit up on China demand (Thurs, 11th Feb)
- Copper demand to rise in Brazil as country builds (Thurs, 11th Feb)
- ArcelorMittal holds cash ready for growth (Weds, 10th Feb)
- Well on the path of recovery (Tues, 9th Feb)

Highlighted Research:

A summary of Ocean Equities most recent research products:

- **Griffin Mining:** Trading Update - Increased Production in 4Q 2009 (Mon, 15th Feb)
- **Chromex Mining plc:** Production at Stellite recommences (Weds, 10th Feb)
- **Greystar Resources:** EIA submitted, Angostura on its way to a mining permit (Weds, 10th Feb)
- **Nyota Minerals:** Outstanding metallurgical results for Tulu Kapi (Feb 3rd 2010)
- **Iron Ore Holdings Ltd:** Maiden resource at Buckland Hills illustrates the potential for a number of further catalysts (Feb 2nd 2010)
- **Norseman Gold Plc:** Dec'09 Quarterly Report (Jan 28th 2010)
- **Rambler Metals & Mining:** Potential gold resource at the Nugget Pond Mine (Jan 26th 2010)
- **Griffin Mining Ltd:** New Mining Licence Issued (Jan 26th 2010)
- ~ OCEAN STOCKS TO HIGHLIGHT IN 2010 ~
Seeds of Change: planted in 2009 and now ready to grow in 2010 (19th Jan 2010)
- **Kirkland Lake Gold:** New Aggressive SMC Drilling Campaign Yields Superb Results (Jan 12th 2010)
- **Iron Ore Sector Update:** Iron ore spot prices enter the New Year with momentum; market fundamentals are looking positive into 2010 (Jan 11th 2010)

Refer to page 17 "Highlighted Research" for further detail and page 4 for "Commodity and Currency prices in more detail" sections.

Ocean Comment:

Secular Demand is the overriding theme of the day. Market noise has further justified that the market will only put its trust in long term secular demand trends that have fundamentals rather than speculation to back them up. **Continued on Page 2...**

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OCEAN EQUITIES Ltd

Thursday the, 18th February 2010

Commodity spot prices - quick look

Precious Metals	Last	1W %
Gold (US\$ / oz)	1,115.9	1.87
Silver (US\$ / oz)	16.0	2.12
Platinum (US\$ / oz)	1,517	-0.88
Palladium (US\$ / oz)	432.5	2.36
Base Metals		
Copper (US\$ / t)	7,101.5	9.04
Nickel (US\$ / t)	20,066.0	13.79
Cobalt (US\$ / lb)	14.3	0.00
Zinc (US\$ / t)	2,276.8	8.33
Lead (US\$ / t)	2,266.5	11.79
Bulk Metals		
Iron Ore - China Fines	129.5	0.78
Iron Ore - China Pellets	134.0	0.37
Coal - NYMEX Yr1 Fut (U	66.9	0.62
Chrome - FOB RSA Spot (C	210.0	0.00
Energy		
WTI Oil (US\$ / barrel)	78.0	4.64
Brent Oil (US\$ / barrel)	76.3	3.76
Baltic Supramax Index	2,029	-2.26
Currency prices, quick look		
	Last	1W %
US\$ / £	1.56	-0.87
US\$ / €	1.36	-0.88
US\$ / C\$	1.04	0.49
US\$ / A\$	0.90	0.81
US\$ / ZA Rand	7.63	-0.06

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The correction in the market two weeks ago brought all the bears out of their caves. Double dip was what everyone was talking about. The shenanigans in Greece added to that by bashing about the Euro and generating underlying fear in the markets. Fairly swiftly though the initial fear has been calmed and saner minds have prevailed. The justification for the demand 'super-cycle' in metals and mining was underscored by the fact that the resource sector barely wobbled. Metals and mining overall maintained or gained during the last correction. 30% of the profits distributed on the LSE came from companies that extracted things from the ground (and this doesn't even include the AIM market), and the market is aware of this. Gold wobbled and dropped 15% off of its December record breaking highs, and is what grabbed all the headlines, but as we noted it has ratcheted back up 5% in the last week (more on this below). Also base metals have barely had time to dip – bellwether copper was below \$7,000/t for less than 20 days with all the others following a similar pattern – the quick recovery being led (surprisingly) by out-of-favour nickel.

This supports the secular demand theme as commodities that have end users that might actually put the stuff to work (unlike the hoarders of gold and the other precious metals) are still coming to the market for more. The secular demand trends in metals and mining are based on conservative estimates of growth in Asia, based on actual contract orders and supply data. This secular demand trend is further underlined by the global M&A consolidation in the potash space. Potash is the only supply constrained essential agricultural ingredient in the space right now. There are perhaps 20 large and 20 junior potash companies in the entire world. The majors, BHP, Rio, and Vale have all made major multi billion dollar acquisitions in the last month. Even India has gotten in the game with an agricultural co-op spending \$125 million for a 10% stake in a junior potash exploration company in Peru, in order to secure its supply. The Indian fertilizer Co-op in question has over \$10 billion in assets, another indication of the size and importance of the market. The global giants have been circling around the remaining Potash companies and buying them up as quickly as they can. Secular demand even in the most conservative analysis has put forth a simple equation that cannot be ignored: populations are increasing; at a minimum they need food and shelter; and the materials required to create food and shelter are supply constrained. Therefore: a) their prices will go up, and b) we should be acquiring them as quickly and securely as we possibly can.

One of the key features in a secular trend is the ratchet effect. At the Mining Indaba in Cape Town this month, we noticed that most of the constraint factors highlighted by pundits on commodity prices were the same as the previous year, but now at higher levels. The obvious one is the perennial concern about the price elasticity of Indian demand on gold. The argument goes that Indian jewelry demand will falter when gold reaches a certain level. Last year that level was \$1000; this year it was \$1200. See the point? (NB. Indian jewelry is actually just a part of the investment sector, not an alternative sector as many analysts contrive.)

Many have noted that the ongoing noise on the Euro (still the headline on every broadsheet today) is obscuring the still-huge problems with Dubai and the UK. But the real gorilla in the room is of course still the dollar. With *any* other background but this current European setting (Who knew? Answer: everyone), the dollar would look sick as a bilious parrot. There is *serious* political disarray in Washington at the moment; Congress is now more dysfunctional than any time in living memory. There will be a fiscal squeeze this year and those pesky deficits will inevitably come back to the fore.

So where's the measure of this in the all-knowing market? Despite the fact that the dollar is the strongest G20 currency over 1 month and 3 months (entirely on least-worst safe-haven basis), gold in dollars is currently over \$1100 from highs of \$1225 per ounce. Even in these superpower dollars, gold is over its 100-day moving average (and 50dma and 200dma incidentally). The other way to look at this is that gold is now at all time highs in Euros, the world's second biggest currency. Gold is doing what it does; it's storing value.

The ratchet here is that over this phase of apparent dollar strength, the dollar is holding its ground when it might have been mulled. So what will happen when, say, the record short positions in euro are cashed in or some other trigger highlights the structural problems in the dollar? The dollar will give up its recent gains. And gold will ratchet up with higher highs and higher lows in each wave. We recommend to buy gold, shares of companies pouring gold and those with gold in the ground.

A note on Greece and the Euro: perspective is needed. As an American journalist Mike O'Rourke recently noted, "Greece's GDP, at only \$343 billion, is roughly equivalent to the GDP of the state of Washington in the U.S.", Greece's total stock market valuation is "slightly more than Citigroup's and, if you add the GDP of Greece and Portugal together, they will equal the size of one large systemic institution in the United States." Another simple analogy might be the best way to put this in perspective. The population of The European union is a little over 500 million, the population of the Eurozone is approximately 330 million, and the population of Greece a little over 11million. The GDP the Eurozone is 8.4 trillion Euro, and the GDP is of Greece is 251 billion Euro, representing approximately 2.9%. Likening the Eurozone to a large corporation might be the easiest way to look at this. A badly performing division representing 3% of your company is making a 12.7% per annum loss. It is going to affect overall P/L for the year, especially in a downturn, but not by much, and it won't bring down the whole company. The bad press will bash the price of the company around in the markets based on speculation, but as soon as restructuring is in place the markets will come back to sanity. This is complicated by the fact that the badly performing division, Enron style, has been cooking its books. But modern companies know the way to fix this is to ultimately is to throw out the bad management and revamp, putting extra controls in place. As a last resort if the revamp looks unfeasible, the division will get spun off. None of these options spell disaster. And that is exactly what is going to happen to the Euro. Even the rest of the badly performing PIGS are not worth enough to completely topple a goliath like the Euro. Like all companies in a downturn, the Euro will have to take a hard look at all of its divisions, clean house, streamline. and become more efficient, and ultimately it will prevail.

Commodity and Currency prices in more detail:

Commodity spot prices	Last	1D %	1W %	1M %	12M %	YTD %
Precious Metals						
Gold (US\$ / oz)	1067.75	-0.97	-3.80	-6.20	16.67	-2.67
Silver (US\$ / oz)	15.19	-1.67	-7.16	-17.79	15.53	-9.97
Platinum (US\$ / oz)	1499.60	-0.29	-4.79	-5.00	44.85	2.33
Palladium (US\$ / oz)	409.35	-2.07	-6.43	-4.41	92.64	0.38
Base Metals						
Copper (US\$ / t)	6567.00	2.18	-3.34	-11.66	85.29	-10.56
Nickel (US\$ / t)	17473.00	1.58	-4.13	-2.01	52.82	-5.31
Cobalt (US\$ / lb)	14.25	0.00	1.79	11.76	23.91	13.55
Zinc (US\$ / t)	2089.75	4.08	-2.66	-16.07	78.57	-17.37
Lead (US\$ / t)	2013.50	3.52	-4.05	-19.62	69.27	-16.17
Bulk Metals						
Iron Ore - China Fines CFR (US\$/t)	128.50	1.98	1.98	15.25	59.63	15.25
Iron Ore - China Pellets CFR (US\$/t)	133.50	-1.11	-1.11	11.25	27.14	11.25
Coal - NYMEX Yr1 Fut (US\$/t)	66.49	0.90	0.12	-4.65	2.96	23.29
Chrome - FOB RSA Spot (CNY/t)	210.00	0.00	0.00	12.00	12.00	12.00
Energy						
WTI Oil (US\$ / barrel)	73.63	-0.16	-4.35	-11.02	96.09	-7.22
Brent Oil (US\$ / barrel)	71.17	-0.92	-5.57	-11.89	61.24	-7.81
Baltic Supramax Index	2128.00	-0.61	-2.65	-11.99	107.61	-4.32
Currency						
US\$ / £	1.56	-0.81	-1.89	-3.25	7.22	-3.57
US\$ / €	1.37	-0.67	-1.35	-5.57	6.13	-4.30
US\$ / C\$	1.07	-0.21	-0.49	-3.21	16.48	-1.37
US\$ / A\$	0.87	-0.63	-1.11	-6.07	33.35	-2.73
US\$ / ZA Rand	7.75	-0.91	-3.04	-4.76	28.12	-4.49

Source: Bloomberg

Soros more than doubles gold ETF bet in Q4 (Weds, 17th Feb)

At the end of the quarter the hedge fund held 6.2m SPDR shares worth \$663m. It also announced it bought almost 95m shares in Citigroup

Billionaire investor George Soros' hedge fund more than doubled its bet on the price of gold during the fourth quarter, a portion of the firm's total U.S.-listed equity holdings of \$8.8 billion at the end of 2009.

The New York-based firm also disclosed in a filing on Tuesday with the U.S. Securities and Exchange Commission that it bought almost 95 million shares of Citigroup during the quarter, worth \$313 million by the end of the year. Soros reported no holdings of the troubled bank's shares at the end of the third quarter.

Soros Fund Management owned 6.2 million shares of the SPDR Gold Trust, an exchange-traded fund that owns gold bullion, at the end of the year worth \$663 million. That was up from 2.5 million shares at the end of the third quarter.

Soros and other noted investors like John Paulson have previously touted gold as a hedge against inflation, further economic turmoil or a decline in the value of the U.S. dollar. Last month at the World Economic Forum in Davos, Soros said "the ultimate asset bubble is gold," but he declined to say whether he was investing in the precious metal.

Soros' most recent SEC filing also revealed large bets on seed producer Monsanto and Brazilian gas and oil giant Petroleo Brasileiro SA, also known as Petrobras.

The firm held 3.9 million shares of Monsanto at the end of the fourth quarter, up from 1.1 million three months earlier.

Soros also reported a stake of 7.7 million shares of Petrobras's U.S. ADRs, worth \$369 million, and a slight increase from the 7.4 million receipts held at the end of the third quarter. Soros had another 5.9 million shares of nonvoting ADRs worth \$249 million, virtually unchanged from his holding three months earlier.

Soros also reported raising his holdings in oil company Hess Corp. and telecommunications company AT&T Inc. among others.

According to the regulatory filing, Soros Fund Management raised its holding in carmaker Ford Motor Co. to 10.9 million shares from 7.3 million shares at the end of the third quarter, when Soros started to accumulate his position.

Soros also raised his holdings of AT&T for the second straight quarter to 4.7 million shares at the end of the fourth quarter, from 4.2 million shares at the end of the third quarter.

Large investors such as Soros are required to report holdings of U.S.-listed equities at the end of each quarter, but not short positions or holdings of other securities like bonds and over-the-counter derivatives contracts. Investors are also allowed to file some holdings on confidential reports if they are trading into or out of a position at the end of a quarter. (Reuters)

Private Equity, State Owned Entities, And Sovereign Wealth Funds: The New Arbiters Of Power In The Post Credit Crunch World (Weds, 17 Feb)

Over the last five or six years stock markets, and mining markets in particular, have managed to confound both bears and bulls in almost equal measure. No sooner had analysts caught up to the idea that the Supercycle wasn't just a promoter's daydream but a hard economic reality, and updated all their financial models accordingly, when all of a sudden the global financial crisis smashed into everything and sent the whole world into a tailspin. Given that rollercoaster, it's perhaps understandable that lots of research these days seems to have more than one heading. In many cases the shell-shocked analysts involved can't decide what they really want to say. There was certainly plenty of that kind of research around at the back end of 2008 and in the early part of 2009, when a read-through of much of what was written could simply have been rendered as: Life is terrible, things can only get better. Another way of putting it might have been: You can now make a killing, provided you haven't already been killed.

So it was nice to see that the commentary accompanying the latest research from Ernst & Young Global Mining and Metals team doesn't mince words. And neither does it hedge its bets. "Longer term fundamentals look compelling for miners", blasts out from the top line. The secondary heading follows up with an equally bullish: "Confidence in super cycle returning to drive mining deals". Interesting too, to note that "A new era of financing has dawned that will forever be changed". The precise meaning of that statement may not be entirely clear, but the sentiment certainly is: it's a brave new world.

At the beginning of the actual Ernst & Young document, which runs to a choice 132 pages, the initial tone seems to be backward-looking. "2009: The Year of Survival and Revival", reads the first major heading, ahead of the photo parade of the report's myriad authors, principal among them Mike Elliot and Michael Lynch-Bell. "2009 Was An Extraordinary Year For Mining And Metals Companies, With Changes That Will Resonate Through The Industry For Years To Come", reads a further heading. So rather than looking back, what it's actually doing is setting the scene for the future. 2009 was the year all the clocks were reset to zero.

Looking ahead, says Ernst & Young, China remains a key driver for markets and the major companies have now all been recapitalized and are reasonably well positioned to take advantage. But in spite of that restored equilibrium, certain dynamics have changed for ever. The disappearance of the availability of debt financing in 2009 meant that Asian buyers with cash emerged as an even greater force in the market, while follow-on equity and bond raisings hit record levels. Good news for certain sections of the markets, though one can't help wondering whether, with metals prices delivering a strong recovery during last year, the debt boys didn't miss a trick.

Too late: the world's moved on. Ernst & Young's headings are once again all that's needed for guidance: "Flight To Equity", "Resurgence In Corporate Bonds", "Demise Of The Bank Loan" tell you almost all you need to know about how money's being raised in the post credit crunch world. Project finance was on a real downer last year. Only one project with a value of over US\$1 billion made it through to the home stretch: Antofagasta's Minera Esperanza project.

But, as many of the attendees at our 65th Minesite forum - packed to the rafters on Tuesday 16th February - will attest, there's plenty of positive sentiment around as far as mining in general goes. And Ernst & Young would heartily agree. "Continued demand from China and India to fuel rapid economic development means the mining and metals sector's longer-term fundamentals remain compelling", says Ernst & Young. "2010 has begun strongly, continuing the momentum that built up at the end of 2009. We expect the number and size of deals to increase, although megadeals are likely to remain scarce. Many mining and metals companies that are pre-occupied with debt reduction are looking to organize growth and strategic bolt-on acquisitions before valuations become too expensive. Even the most cautious players are looking at how to prosper from economic recovery. And competition from cash-rich Chinese companies and increasingly resource hungry Indian investors will promote a strong seller's market."

That can only be good news for the juniors, many of whom showed commendable resilience during the tough times over the last couple of years. For the survivors it could all be about to come good again. One thing's for sure at any rate - the era of cheap debt is over. Look now to sovereign wealth funds, state-owned entities, henceforth to be abbreviated as SOEs, and private capital to make much of the running as far as financing is concerned. Equity funding will assume an even greater prominence, and the IPO market should recover strongly. And we'll continue to bring you the best of those stories here on Minesite.

The Big Australian and the Brazil consortium (Weds, 17 Feb)

As a general rule, the most successful man in life is the man who has the best information. What do you know about potash?...

In the spring of 1869 a German Chemist named Charles Rasp immigrated to Australia for his health. Unable to find work in his chosen trade Charles learned to ride a horse and began wrangling sheep. One day, while out riding his horse at Broken Hill, he discovered mineralised rock. He took out a mining lease, punched holes in the ground and eventually found rich veins of silver. The Broken Hill Proprietary Company - BHP - was incorporated in 1885 while mining silver and lead at Broken Hill in western New South Wales.

Billiton was a mining company that got its start in September 1860 when the articles of association were approved by a meeting of shareholders in the Groot Keizerhof Hotel in The Hague, Netherlands. Shortly afterwards the company acquired the mineral rights to the tin-rich islands of Banka and Billiton off the eastern coast of Sumatra.

BHP Billiton - also known by the nickname "the Big Australian" - is the world's largest mining company. It was created in 2001 by the merger of Australia's Broken Hill Proprietary Company and Anglo-Dutch Billiton. Today BHP produces - oil, natural gas, bauxite, aluminum, copper, silver, lead, zinc, uranium, diamonds, coal, titanium, well, you get the idea, they're miners, they pull "stuff" out of the ground and sell it.

Last week BHP paid \$341 million, C\$8.35/share, to acquire Saskatoon's Athabasca Potash (TSX: API). This acquisition will give BHP Athabasca's Burr Project, which is located next to BHP's Jansen Project to which the company just committed \$240 million. BHP likes big stories, the unfolding potash story is one of the biggest and in this author's opinion it can only get bigger.

"We cannot rule out further acquisitions of potash juniors: With over half a billion dollars committed to potash within the past week, it's clear that BHP Billiton are favourable towards the commodity." Macquarie analyst Sam Catalano

Vale S.A. - formerly known as Companhia Vale do Rio Doce (CVRD) - of Brazil is the second largest mining company in the world. It was founded by the Brazilian Federal Government in June 1942. The company was privatized in 1997 when the Brazil Consortium bought just over 40% of the Federal Government's stock.

Even though Vale has operations in the energy and logistics sectors both sectors combined contribute less than ten percent to Vales total revenues. Vale is a miner and controls the Brazilian iron ore industry owning all Brazilian iron ore exporters.

In recent years, in an attempt to diversify its operations, Vale has made a string of purchases getting into copper, kaolin, nickel and coal. In October 2006 Vale bought Canada's second largest mining company, Inco, for \$18.9 billion. Vale also produces manganese, ferroalloys, bauxite, potash (Sergipe mine in Brazil), alumina and aluminum.

Lately Vale S.A. has moved into the fertilizer business in a big way:

In January of 2009 Vale bought Rio Tinto's potash assets in Argentina and Saskatchewan Canada for \$850 million US.

In January 2010 Vale announced it will acquire all the shares of Bunge Participacoes e Investimentos S.A. (BPI). Vale will pay \$1.65 billion US for BPI - for its wholly owned phosphate mining operations in Brazil - and another \$ 2.15 billion US for its 42.3 percent in Fertilizantes Fosfatados S.A. (Fosfertil) - a leading Brazilian fertilizer company.

The U.N. calls the global food crisis a "silent tsunami" and faith in the ability of local and global commodity markets to fill 6.6 billion bellies, never mind the projected 2.7 billion more by 2050 (U.N. projections say the world's population will peak at 9.3 billion in 2050) has been shaken.

Most of this population growth will be seen in developing nations.

As income in these developing nations grow people will demand a more protein rich diet - which means more people eating more meat. This has an amplifying effect on the demand for fertilizer, because it takes about 10 kilograms of grain to produce one pound of meat. As meat consumption soars, more grain is needed to feed more livestock. 75 million more people per year are going to have to be fed and all this while our arable land base is shrinking and fresh water supplies in many areas of the world are under tremendous strain.

In order for a plant to grow and thrive, it needs a number of different chemical elements. Three of these are the macronutrients nitrogen, phosphorus and potassium (a.k.a. potash, the scarcest of the three). Potassium makes up 1 percent to 2 percent of any plant by weight and is essential to metabolism. The availability of nitrogen, phosphorus and potassium in the soil, in a readily available form, is the biggest limiter to plant growth.

The United Nations Food and Agriculture Organization (FAO) reported they think that the total world demand for agricultural products will be 60 percent higher in 2030 than it is today.

"This is a solid business and the big mining companies agree. If they can find a way to participate in it, they will." Mark Connelly, New York brokerage Sterne Agee.

As I've just shown you, the world's two biggest miners are moving into fertilizer in a big way. The reality is the potash story is just starting. Unlike other resource plays there is no cycle, demand is always going to be there and its rising year over year making potash an excellent play in what will be a long term agricultural commodities bull market.

Besides the developing, across the board, interest in potash - a rising tide lifts all ships - there are some pretty interesting stories developing around a few individual companies.

I believe a question we should be asking ourselves is: are there any potash juniors out there - that for whatever reason - seem to stand out from the crowd?

Encanto Potash (EPO - TSX.v)

The Muskowekwan Prospect in Saskatchewan, Canada, is EPO's main focus. The company has acquired historical data from 6 oil and gas wells which almost completely surround the Muskowekwan Project (The wells range from as far as 15.6 km away to as close as 11.4 km away from the Muskowekwan property boundary).

The grades and thicknesses of the potash beds in these historical oil wells were estimated in an engineering report prepared by Chapman Petroleum Engineering of Calgary.

"Based on the report, estimates of the Patience Lake Member has average thickness and potash grade in the four drill holes of 13.7 feet of 32% KCl *(20% K2O); 11.9 feet of 30% KCl (19% K2O) in the Belle Plaine Member; and 8 feet of 29% KCl (18% K2O) in the Esterhazy Member. Assays are based on a 23.7% KCl (15% K2O) cut off." From Encanto's website

EPO's first drill hole into its 43,000 acre Muskowekwan potash property returned values of 25.2% K2O (39.9% KCl) over 3.6 metres in the Patience Lake potash bed, and 25.5% K2O (40.4% KCl) over 2.4 metres in the Belle Plaine potash bed.

The total thickness of the Patience Lake and Belle Plaine potash beds is 6 meters having an average grade of 25% K₂O. As a comparison the recently purchased Burr Project of Athabasca Potash averaged 5.14 m of 21.04% K₂O and 4.79 m of 23.39% K₂O on their upper Patience Lake and Lower Patience Lake potash beds respectively.

"These results on Muskowekwan have added greatly to our belief that it has the potential to establish a substantial and economic potash resource. The Muskowekwan First Nations and Encanto management are very excited about these grades. This is a fantastic start to 2010." states CEO James Walchuck.

This was taken directly from Potash Corp's 2008 annual report: "In 2008, our conventional potash operations (excluding Esterhazy) mined 23.119 million tonnes of ore at an average grade of 22.88% potassium oxide ("K₂O"). The potash ore....lies about 1,000 metres below the surface....the potash beds of approximately 2.4 to 5.1 metres."

Results from a 3-D seismic will be released in March and a 43-101 compliant resource calculation is scheduled for September of this year.

Encanto is backed by Endeavor Financial (EDV: TSX), a merchant bank that specializes in the natural resource sector.

Conclusion

When mixed with phosphate and nitrogen potash makes it possible for fertilizers to boost crop yields by as much as 60% (USGS). Potash Corp (TSX: POT) claims that each dollar spent on fertilizer returns \$3 worth of improved crop yields, POT also says that for every \$100 added to the price of a tonne of potash only three cents is added to the price of a bushel of corn - potash is a high margin product and there is no commercial substitute.

"Companies involved solely in exploration of potash are likely take-out candidates, either by diversified mining companies seeking a way into the potash industry or by countries looking to lock-in supply." Jacob Bout, fertilizers analyst for CIBC World Markets, Global Potash Supply - A Focus on Saskatchewan Exploration

I think potash is a story Charles Rasp would like. Is it on your radar screen? (resourceinvestor.com)

Overcapacity Everywhere, Except In Mining (Mon, 15th Feb)

2009 was the year when capital markets realised that capitalism still worked. This year seems to be turning out to be the year when the same people are deciding that although it's good that it works, it is not quite as exciting as they would like it to be.

Bizarrely, overcapacity exists in almost every industry in every country, with only one glaring exception. Car manufacturers still have heaps of under-utilised plants, despite the environmentally ludicrous incentives from governments encouraging consumers to scrap perfectly good cars.

Toyota has so little to do it is going to rebuild several million cars it has already made.

The only industry that is struggling to meet demand is mining, and even there the picture is mixed. The obvious exception is nickel. But every copper mine is going flat out, and so are coal and iron ore mines. Aluminium does have a bit of spare capacity, as do zinc and lead mines. And platinum operators are struggling a bit. But gold production has not risen in ten years, even though prices have quadrupled and demand is at a record.

The answer to this conundrum is that while the developed world has invested squillions of dollars, euros, yen, and renimbi to make things like cars and fridges there has been a famine of investment in mining.

Often regarded as low tech and embarrassing in today's digital world, too many people overlook the fact that on the London Stock Exchange, the third biggest exchange in the world, 30 per cent of the distributable profits come from companies that extract resources from the ground. Virtually nothing comes from businesses making cars, fridge or "clean technologies", whatever they are.

Despite this simple demonstration of what makes money, and what does not, no government ever wants close a car plant, or indeed any industrial facility that employs voters. As a consequence there is a massive surplus of car plants and other factories.

That suits miners. As long as General Motors and Toyota keep building cars demand for metals will hold up, irrespective of the capital structure of the owners.

It is this strong underlying demand that drove metals back up last week so that, before Friday's sell off, they had recovered much of the ground that was lost the previous week. In the end copper closed 1.5 per cent ahead at US\$6,672 a tonne, and the other metals made similar recoveries. However, nickel, as is often the case, went its own way and fell by 1.7 per cent to US\$17,940 a tonne.

The undercurrent to this renewed demand is China, and it was worries about the impact of efforts to slow the economy there that caused the setback on Friday. Whether the increase in the reserve ratio for Chinese banks by 50 basis points will have the desired effect is unknown. But, for the moment, all commodity producers are grateful for the pull from China, as the economic data from Europe stays unrelentingly grim.

Growth of 0.1 per cent from the eurozone in the fourth quarter hardly merits the name. At some point politicians will accept the inevitable and invite Greece to leave the euro for its own good. But that is probably many months away and the intervening period will do nothing to encourage investor confidence in the euro.

In the meantime, commodity investors just have to hope that the Chinese authorities slow the Chinese economy by just enough, but not by too much - a tricky balancing act indeed. (minesite.com)

Few options for Argentina in oil dispute (Sun, 14th Feb)

War, Winnie the Pooh. Now what?

Argentina invaded the Falkland Islands in 1982 in a failed attempt to wrest the windswept south Atlantic outcrop back from Britain and then, a decade ago, it sent islanders gifts of the cuddly children's bear as part of a seduction strategy.

Now, as a drilling rig is expected to arrive this week to step up the search for oil and natural gas by British companies, Argentina's foreign minister, Jorge Taiana, is vowing to take "all necessary legal and diplomatic measures" to recover sovereignty of what Buenos Aires calls the Malvinas. Britain's link to the islands is seen as an anachronistic colonial hangover.

Buenos Aires fired the first salvo last week, halting a cargo of pipes from being loaded on to a ship, the Thor Leader, that had delivered equipment to the Falklands – a strategy that could make it unprofitable for shipowners if any vessels involved in exploration were barred from picking up cargo in Argentina. Buenos Aires has also vowed to blacklist companies providing services to the exploration effort.

British Aim-listed companies Desire Petroleum, Rockhopper, Falkland Oil & Gas and Borders & Southern are hoping to hit "black gold" in waters around the Falklands, saying there could be billions of barrels of oil and gas to be found.

Despite overwhelming public support in Argentina for sovereignty over the islands, the government has said little and the exploration has not made front-page news.

Celia Szusterman, an Argentine professor at the University of Westminster, said Cristina Fernández, the Argentine president, "has been repeating the [sovereignty] claim in any and every regional and international forum that she has the opportunity to speak at, but they are keeping the issue out of the headlines. They know they can't do anything other than protest".

She said it was not in the government's interest to stir patriotic fervour since it had little tangible to offer in the short term. The foreign ministry acknowledges that the drive to recover the south Atlantic islands will be a slow one.

Federico Thomsen, a political analyst, said keeping things low key could be a deliberate strategy not to stoke Argentina's country risk as it prepares to make an offer to the holders of bonds still unpaid since the country's default on nearly \$100bn of debt in 2001.

"For centuries the Falklands were about some sheep, penguins and fish and even so we had a war," he noted. "Should someone find 'black gold', things will get more uncomfortable and nationalists will be stirred."

British officials say bilateral relations are good, apart from the Falklands issue. "Argentina is a valued international partner with which we co-operate on a number of issues, including G20, climate change, human rights and non-proliferation," said a spokesman at the British embassy in Buenos Aires.

He also noted "long-standing" investments in Argentina by British companies, including BP, the majority shareholder in Pan American Energy, a big energy producer in Argentina.

However, some of Barclays' operations in Argentina have recently come under fire.

Barclays is one of the banks involved in structuring the defaulted debt offer, but a suit filed by an Argentine lawyer is seeking to remove it for failing to disclose its interest in the exploration.

Barclays is a banker to Desire Petroleum and Barclays nominees held 6.3 per cent of Desire shares as of last September, according to Desire's website. A spokesman could not confirm whether the British bank held any shares in its own right.

The Falklands, which islanders say were first sighted by an English navigator in 1592, have been under British rule since 1833 and London says it supports residents' right to self determination.

Argentina is pursuing its cause at the United Nations Decolonisation Committee, which meets annually and has exhorted both sides to resolve the dispute, as have resolutions from the UN General Assembly. (ft.com)

Chinese Mining Investments Sweep The Globe (Mon, 8th Feb)

If anyone had any doubt that a seismic shift of financial power from West to East is underway, they need to look no further than the US\$17 billion Chinese companies and sovereign wealth funds pumped into the mining sector in investment commitments last year. That number could have been closer to US\$30 billion if Chinalco had been successful in its bid for a 50% stake in a number of Rio Tinto's (RTP-N, RIO-L) assets.

Indeed the Chinese government is sitting on more than US\$2 trillion and the nation's well-known appetite for commodities will see its investment in offshore mining projects shift into higher gear in the years ahead.

Most of the acquisitions in 2009 were in iron ore, coal and copper with the largest being **Yanzhou Coal Mining's** (YZC-N) US\$2.9- billion takeover of **Felix Resources** (FLX-A), which owns several coal mines in Australia.

The number of Chinese investments in offshore mining assets last year detailed in a list compiled by Deutsche Bank runs to 26. And is worth closer scrutiny by players in the industry who might be on the lookout for trends or possible deals.

In the coal sector, Lark Guangdong pledged US\$350 million to Indonesian coal miner PT Bumi Resources and Noble acquired **Gloucester Coal** (GCL-A) for US\$500 million. Gloucester Coal is a coal miner in Australia's Gloucester basin, 100 km north of Newcastle in New South Wales. China's sovereign wealth fund, China Investment Corp. purchased US\$1.98 billion in debt instruments of Bumi Resources, while China Investment Corp. took a stake in coal miner **SouthGobi Energy Resources** (SGO-T) for US\$500 million. SouthGobi recently listed on the Hong Kong Stock Exchange and includes among its assets a large coal mine in Mongolia.

Iron ore deals included Wuhan Iron and Steel's controlling stake in **Centrex Metals** (CXM-A) for US\$150 million. Wuhan Iron and Steel is one of China's largest steel-makers producing about 30 million tonnes annually, while Centrex Metals owns iron tenements in southern Australia's Eyre peninsula. The Chinese steel giant also took a stake in **Consolidated Thompson Iron Mines** (CLM-T) for US\$240 million to access the Canadian company's iron ore assets in Quebec.

In other transactions, Hunan Valin Steel Company invested US\$900 million for a 17.5% stake in **Fortescue Metals** (FMG-A) of Australia, one of the world's leading iron ore producers and Baosteel purchased a stake in Perth-based **Aquila Resources** (AQA-A) for US\$270 million. Xuan Yuan Industrial Development issued a US\$260 million project loan to **Petropavlovsk** (POG-L), a London-listed company with gold and iron ore assets in Russia that bills itself as that country's third-largest gold producer. China Railways also invested US\$244 million for a stake in **African Minerals** (AMI-L), which holds iron ore assets in Sierra Leone, West Africa. Sinosteel also acquired a stake in Australia's **Murchison Metals** (MMX-A) and China Minmetals, the country's largest metal trader, bought a stake in the Lake Giles iron ore project from **Macarthur Minerals** (MMS-V) for US\$85 million.

In copper, Tongling/China Railway acquired **Corriente Resources** (CTQ-T) and its Ecuadorian projects for US\$650 million, while China Non-Ferrous Metal Mining acquired Luanshya Copper and pledged investment in its Zambian copper asset to the tune of US\$450 million. Sinchuan Hanlong issued US\$700 million in debt and equity for a controlling stake in **Moly Mines** (MOL-T, MOL-A), which is developing base metal projects including the world-class Spinifex Ridge molybdenum-copper project in Western Australia.

In the copper-gold sector, Zijin Mining spent US\$520 million on its acquisition of **Indophil Resources** (IRN-A). Indophil is developing the Tampakan copper-gold project in the southern Philippines. First Pacific took a stake in **Philex Mining** (PX-P) for US\$215 million. Philex operates the Padcal copper-gold-silver mine in the Philippines. Finally, the China Development Bank and Samruk signed off on a US\$2.7-billion loan to **Kazakhmys** (KAZ-L), the largest copper producer in Kazakhstan.

Precious metals deals included China Sci-Tech's purchase of the Martabe project from **OZ Minerals** (OZL-A) for US\$211 million and Guangdong Risking Assets Management's US\$150-million purchase of a stake in **Pan Australian Resources** (PNA-A). Pan Australian produces copper concentrate from its Phu Kham copper-gold deposit, 120 km north of the Lao capital Vientiane.

Other investments included Minmetals' US\$1.4-billion acquisition of OZ Minerals, which owns the Prominent Hill copper-gold mine, 130 km northwest of **BHP Billiton's** (BHP-N) Olympic Dam, and China Non-Ferrous Metal Mining's US\$10 million stake in **Terramin** (TZN-A), a base metal company with an operating zinc mine located 60 km from Adelaide, the capital of South Australia. Terramin also has advanced zinc projects in Australia and Algeria. Zhongjin purchased a US\$40-million controlling stake in Australian zinc miner **Perilya** (PEM-A), which operates a zinc, lead and silver mine in Broken Hill, in New South Wales, and China Investment Corp. invested US\$1.5 billion for a stake in **Teck Resources** (TCK. B-T, TCK-N).

northernminer.com

Deposit claim boosts African Minerals' hopes (Thurs, 18 Feb)

African Minerals, the Aim-quoted mining company, said it was sitting on the largest industry certified resource of magnetite iron ore in the world, after revising upward the size of a deposit in Sierra Leone to an estimated 10.5bn tonnes.

The results of drilling at the Tonkolili project comply with the Joint Ore Reserve Committee, or JORC, the industry standard for verification of mineral deposits, and were signed off by the well-regarded SRK Consultancy.

But some mining analysts said investors should be cautious and questioned the record of Frank Timis, executive chairman and major shareholder of African Minerals, one of the largest mining companies on Aim by market capitalisation.

Mr Timis is best known as the founder of Regal Petroleum, which saw its share price plummet in 2005 after claims that its Greek oilfield was one of the largest reserves in Europe proved false.

John Meyer, an analyst at Fairfax, said: "Maybe this is the largest JORC-certified resource in the world, but what about the mines in Western Australia, they are bigger, but you don't need JORC certification because they know they are there."

Alan Watling, African Minerals' executive director, responded: "The announcement has to meet various criteria, it's all independently done, any analyst that says they are sceptical about it doesn't know the process."

The Tonkolili deposit is certified as an "inferred resource", an earlier assessment than that of the more certain category of "proved reserves". The ore is a low grade at 30 per cent.

"There is a long way to go before ore reserves can be estimated," said Tim Williams, analyst at Ernst & Young. "The crucial steps include both a higher level of certainty of what is in the ground and the ability to produce a saleable product but also, critically, the feasibility study which will examine whether all of this can be done economically."

African Minerals sold a 12.5 per cent stake last month to China Railway Materials Commercial Corporation for £152.6m.

"There is little doubt that African Minerals is sitting on an exceptionally large iron ore deposit in Sierra Leone," said Joe Lunn, analyst at FinCapp. "But considerable challenges lie ahead for the company's management in building a mine and achieving commercial production by 2011. Much depends on the company ratifying the conditional off-take and investment agreement it made with a Chinese company." (www.ft.com/iron-ore)

Tanzania gem saga nears end as buyer eyes profit in break-up (Weds, 17 Feb)

One of the strangest tales in the history of company accounting reached a closing chapter yesterday when the Gem of Tanzania, a stone once valued in a building company's accounts for £11m, sold for just £8,010.

A company controlled by a Birmingham entrepreneur and philanthropist bought the large purple rock, once touted as a ruby of unparalleled value, from the administrators of failed builder Wrekin Construction

Tim Watts, the entrepreneur, believes the uncut stone could be worth up to £2m but plans to "smash it up" into smaller jewels at a party where he will serve "the best ruby port we can get". Administrators at Ernst & Young announced the sale yesterday, shortly after they were approached by the Financial Times on behalf of a bidder anxious to know the outcome of the auction.

The bidder, who requested anonymity, said: "Fuelled by the promise of an excessive City bonus, I boldly bid more than £5,000 on the basis that it might be a rubbish gem, but it had [a provenance] that was a world-beating piece of bull."

An FT investigation last year established that the gemstone was mined in Tanzania and brought into the UK by a South African entrepreneur later involved in a scheme to cure Aids with goat serum.

David Unwin, a Derbyshire businessman, bought the gem, which weighs 2.1kg, from an intermediary for about £300,000. Revalued at £11m, it then supported the creditworthiness of Wrekin, Mr Unwin's business, which collapsed last spring with debts of £40m. But the Italian gemmological institute credited on the valuation certificate later denied having issued it.

A Hatton Garden gemmologist had dismissed the Gem of Tanzania as being worth as little as £100. Mr Watts, who owns Pertemps, a group of recruitment companies, is more impressed with the gem: "We expect to sell it at a very substantial profit . . . there are at least 20 significant smaller rubies on its surface."

Network Group, an Aim-listed company controlled by Pertemps that is owed several hundred thousand pounds by Wrekin has acquired the gem. So far, only a local jeweller unable to offer a reliable valuation has inspected the gem for Network. Mr Watts believes it could be worth anything from £200,000 to £2m when broken up.

"We won't be putting it on the balance sheet, though," he said. (ft.com)

Anglo sells Tarmac European assets (Weds, 17 Feb)

The restructuring of Anglo American has taken another step forward as the mining group completed the largest phase of its asset disposal programme to date, selling the European assets of its Tarmac business for \$400m (£254m).

The sale was split between two purchasers, with Eurovia, a subsidiary of Vinci Group, buying Tarmac's construction aggregates businesses in France, Germany, Poland and the Czech Republic.

Innova/4 LP, a private equity group based in central Europe, will buy Tarmac's Polish concrete products business.

Anglo, which reports full-year results on Friday, had long earmarked the business as non-core and originally hoped for a sale of Tarmac in the first half of 2008, but dislocations in credit markets delayed the disposal.

The businesses sold account for 20 per cent of Tarmac's total earnings before interest, tax, depreciation and amortisation, and last year stood at \$487m.

Anglo still plans to dispose of Tarmac's operations in the UK, Romania, Turkey, China and the Middle East. The Spanish business was sold in

June 2008 for €183m (£160m).

Yesterday's announcement follows plans outlined last October by Cynthia Carroll, Anglo chief executive, to change the regional management of Anglo's divisions and sell further assets.

In addition to the Tarmac business, Anglo has said it is putting up for sale its zinc assets, the South African steel manufacturer Scaw Metals, the Brazilian fertiliser group Copebrás, and Catalão, a Brazilian maker of iron alloys. Including Tarmac, these businesses accounted for 11 per cent of 2008 group ebitda, or about \$313m.

Meanwhile, Anglo's board has been reshaped during the past few months since the appointment of Sir John Parker as chairman in July.

He has appointed three group non-executive directors since joining the company: Ray O'Rourke; Jack Thompson, former vice-chairman of Barrick Gold; and Sir Philip Hampton, chairman of Royal Bank of Scotland and former chairman of J Sainsbury.

Shares in Anglo rose 81p to £24.30 yesterday. (ft.com)

Iron-Ore (Tues, 16th Feb)

An iron ore change-up? According to the Financial Times, global mining companies are pushing steelmakers to agree to a record iron ore price for the 2010-11 annual contracts. This has some wary of a repetition of last years stand-off with China. The move comes as Vale (VALE), Rio Tinto (RTP) and BHP Billiton (BHP) commence their "benchmark" annual talks with steel companies in Japan, led by talk with Nippon Steel. The talks with Chinese mills, led by Baosteel, have yet to start. "If the miners get their way, prices could be settled at, or even above, \$90 a tonne – the record level at which the 2008-09 annual contracts were settled – sharply higher than the \$60 agreed for 2009-10", says the Financial Times. A 50% increase to \$90 would be well above the market expectations of a 30-40% rise, however senior mining executives have hinted of an even more impressive rise – as high as 70-90%. Expectations of a this dramatic boost to the contract price stems from the rapidly rising spot price for iron ore, which has risen to \$120. One senior executive argued, "Why on earth should we agree to anything different but spot prices?" saying that the miners would rather sell on the spot market than settle for a low price in annual contracts. Further, miners are betting that spot prices will remain high throughout the year, supported by: 1) Strong demand from China; 2) The reactivation of blast furnaces elsewhere; and 3) New ore export taxes in India, the world's third largest exporter. Vale reiterated its stance warning that even if it ran mines at full capacity it would "struggle to satisfy client demand." The miners demand could come as a shock to steel makers that were commenting just weeks ago that they expected annual contract prices to be settled at the same price as 2009-10 contracts. (Canaccord Adams Morning Coffee)

Chromex Mining Plans To Double Its Output Of Chrome Products By September (Tues, 16th Feb)

Last year was one which producers of chrome and ferrochrome will want to forget. Demand for their products fell off a cliff and prices dived after them. Russell Lamming, chief executive of Aim-traded Chromex Mining kept his eyes firmly on the future all the way through that time, convinced things would get better. He is now being proved right. Russell's response to the torrid trading conditions was interesting. What he did was ensure that the first phase of Chromex's Stellite chrome beneficiation plant could operate at full design capacity by the end of the year, but that it only used ore from existing stockpiles to do so. No actual mining took place at the company's Stellite open cast chrome mine, situated on the Western Limb of the Bushveld Complex, and this go-slow kept costs to a minimum.

The analysts at Ocean Equities have produced a short, but very useful insight into the markets for chrome and ferrochrome. China, as usual, is the key to demand and come the end of 2009 there were obvious signs that industrial production, driven by economic stimulus plans, was having an inevitable impact, though as 2010 progresses prices have yet to get near 2008 levels. The price of chrome is traditionally driven by demand for ferrochrome, used in making ferroalloy, and which in turn is used in making stainless steel. Ferrochrome for metallurgical applications uses up more than 90 per cent of the world's chromite output, which stands at about 19 million tonnes per year.

Interestingly, the benchmark contract price for ferrochrome, which is settled quarterly between South African producers and European steelmakers fell marginally in the first quarter of this year. But in China spot ferrochrome prices have bounced from Chinese yuan 7.15 per pound in December to 8.05 per pound now, equivalent to US\$1.18/lb and compares nicely with the benchmark price for this quarter of US\$1.01/lb. Demand played a large part in this move as did an expectation that contract prices could rise by 30 per cent in the second quarter of this year.

Equally important for Chromex, the China CIF Index for South African lumpy ore, which grades around 35% to 40% Cr2O3 has risen in price by around 19 per cent since December, to around US\$190 per tonne. The key to the markets for ferrochrome and chrome, however, is demand from manufacturers of stainless steel. Last year global production of chrome and ferrochrome fell by nine per cent, though stainless steel output in China moved in the opposite direction, putting in a rise of 19 per cent. This year it is reasonable to assume that stainless steel demand will continue to grow faster in Far Eastern markets than in the West, so it looks as if Russell Lamming has got his timing right as he moves to expand output once again.

Phase II of the beneficiation plant at Stellite will include a dense media separation plant, and the result will be a doubling of production of run-of-mine ore from 20,000 tonnes per month to 40,000 tonnes. No problem about resources, as Russell Lamming points out, as the company has around 32 million tonnes under its belt. And as he also points out, Chromex will be able to market a sized lumpy chrome product in addition to chemical and metallurgical grade concentrates once the DMS is added to the larger beneficiator, and this will, in turn, mean improved recovery margins and economic efficiencies.

In fact the only downside now is the fact that the Stellite mine is in South Africa, with all the problems of a strong Rand, politics, rising costs and intermittent power that that brings with it. Presumably that was at the back of Russell Lamming's mind when he decided to acquire a 49 per cent interest in a Zimbabwean company called Falvect, for a nominal consideration. He will only go as far as saying that that it will spread his bet, but only last week Minesite pointed out in an article on African Consolidated Resources that the flow of mining men and companies from South Africa into Zimbabwe was accelerating despite the continuing confusion around Mugabe's empowerment legislation.

Falvect has chrome concessions in the Shurugwi region of Zimbabwe, as well as tribute concessions in the Ngezi area, and markets chrome products from both. It has been starved of cash, however, and Chromex will fund development of its projects while seeking other similar opportunities in Zimbabwe. Crucial to this would be the construction of beneficiation facilities in the country, and Russell Lamming is looking closely into the economics of such an operation. He is obviously looking forward to the day when Mugabe falls off his perch, but at least Zimbabwe has now lifted the export ban on chrome ore and fines. And, if Samancor would stop disputing the rights to the Mecklenburg deposit in South Africa, Russell's planned skiing holiday for his children's half term would be all but perfect. (minesite.com)

China and India - the Asian gold-buying phenomenon (Mon, 15th Feb)

The ever growing purchasing power of the Chinese and Indian general populations throws bearish fundamental analyses of the gold market into disarray.

China and India are the world's two largest consumers of gold - and the former is the world's largest gold miner. To many the future path of the gold price is inextricably related to the world's two most highly populated nations, both of which are undergoing internal growth at a phenomenal rate in comparison with anything Western nations are able to achieve - even in a major turn round from the recent recession. And such a turnaround seems increasingly far away.

What is particularly important for gold market followers is that both nations' populations seem to have an inbuilt propensity to hold gold. For India this has always been the case. For the Chinese it is a more recent phenomenon, perhaps because it is only recently that much of the general populace has had the wherewithal to invest, but basically it is a desire which is prevalent throughout virtually all Far Asian nation states.

Both China and India have populations which dwarf those of Western nations, and both are becoming increasingly urbanised. In both countries the people are building wealth at an unprecedented rate which means more and more people are entering the consumer classes. The rise in sales of perhaps previously unattainable items in urban China has been phenomenal. Mobile phones are glued to almost every ear, TV in the households is virtually the norm rather than the exception, white goods are seeing huge increases in sales and Chinese auto demand is booming to the extent sales are exceeding those of King Car - the U.S.A. Indian sales growth too is also surging and although still well behind China in its development, the potential is equally as big.

Some five months ago Mineweb published an article which went virtually viral on the internet noting that Chinese state controlled entities were actively promoting gold and silver as investments to the general populace - see 2009's Top Story: China pushes silver and gold investment to the masses. A little later we referred to Indian state entities doing much the same thing - see In India even the Post Office sells gold coins.

Now even if a tiny fraction of India and China's huge populations are seduced into putting some of their savings into gold - and in both countries there is a culture which supports savings (of which gold can be seen as a part) which has long been forgotten in the West. What an impact this can have on the gold market globally. 5 million sales of 10 gram gold bars or coins (a very small investment for a tiny proportion (0.2%) of China and India's combined population of some 2.5 billion people) amounts to 500 tonnes of gold - a little more than 20% of global gold production. Whatever some analysts and economists say about gold fundamentals not supporting a gold price increase, the likely growth in demand from personal investment in the East could confine such basic statistical analyses to the rubbish heap.

And this does not take into account any Asian Central Bank gold purchases. India certainly set a trend with the purchase at one fell swoop of almost half the IMF gold on offer, China is known to be building up its reserves, but no-one, apart from the Chinese themselves, really knows the extent of its increase in gold holdings in various government coffers, and other Eastern and Middle Eastern nations also have a propensity towards buying gold, albeit perhaps on a much smaller scale, as they try to diversify some of their national reserves away from the U.S. Dollar, which is seen as in a long term value decline.

So where does this leave us on the gold front? If the above prognosis is anywhere near the truth then current fundamental analyses are bunk, Nouriel Roubini's take on the situation included! Let the economists stick to fundamental analyses on global monetary flows and economies which tend to follow more set patterns. There are too many unknowns and uncertainties involved in tracking fundamentals for a commodity like gold where much of the demand can be down to a large section, and a growing one in terms of wealth and numbers, of the global population's inbuilt perception of seeing the yellow metal as the ultimate store of wealth, or even as adornment to demonstrate their wealth and position to their fellows. Normal production and consumption statistics can only form an incomplete part of the overall picture.

Yesterday was the start of the Chinese New Year - the year of the Tiger - and a Metal year to boot. Make of that what you will. According to some Chinese horoscopes the year is likely to be a turbulent one, but also beneficial to organizations associated with Metal, which would, of course, include gold mining. With Metal years supposedly also particularly associated with silver and gold among others, this could bode well for the precious metals this year. After all it's not whether we believe in the Chinese horoscope or not - the key is whether a significant proportion of the 1.35 billion Chinese believe in what it portends for the year ahead and act accordingly! (mineweb.com)

Beowulf's Ruotevare deposit contains significant iron ore resource (Mon, 15th Feb)

ONE OF THE LARGEST IRON ORE DEPOSIT NOT YET PRODUCING

The discovery makes the deposit a potential open-pit mining operation

Beowulf Mining Plc (BEM.L) said on Monday an independent study showed its Ruotevare deposit in Sweden contains a significant iron ore resource close to the surface making it a potential open-pit mining operation.

The study said Ruotevare is one of the largest known iron ore deposits not yet in production in Scandinavia.

An updated conceptual study estimates gross revenues of about \$6.85 billion over a 15-year mine life at an extraction rate of 10 million tonnes a year, with total potential cash flows of \$3.07 billion over the mine life.

"We believe that, with further work, we can increase the tonnage available and hence the expected mining life of the project," said Beowulf Chairman Clive Sinclair-Poulton. (Thompson Reuters)

Ramelius cashes out in bidding war (Fri, 12th Feb)

RAMELIUS Resources is looking to new opportunities after selling its Dioro Exploration shares to rival bidder Avoca Resources and boosting its cash kitty to \$A46 million. The Ramelius board decided to accept the offer after the protracted bidder's war between itself and Avoca for control of Dioro which kicked off in July last year.

At the close of its own offer this week for Dioro, Ramelius commanded 37.5% of the company, which equates to 34.35 million Dioro shares.

In accepting Avoca's terms, Ramelius will receive 65c cash per Dioro share (\$22.3 million), as well as 11.6 million Avoca shares.

Ramelius chairman Robert Kennedy said in arriving at the decision to accept the offer, the board had taken into account the risks associated with a minority holding in Dioro, including the significant risk that it may not receive cash flows from the eastern goldfields miner and the

likelihood that its share price would fall after the close of the Avoca offer next month.

"The board believes that benefits of accepting the offer, which includes the ability to apply the cash funds received towards investments in which Ramelius can exercise control, will provide greater opportunities," he said.

Ramelius believes that cash flows from its wholly owned Wattle Dam gold mine near Kambalda, together with cash from the sale of the company's stake in Dioro, will better position it for future growth.

A spokesperson for Avoca said the company is now focused on upping its stake in Dioro to 90%.

Avoca recently received a buy recommendation from UBS Investment Research, with the broker citing potential production upgrades from its Chalice development as well as ongoing exploration blue sky.

"We also have a view that Avoca will be able to close the Dioro deal resulting in additional production from the Frogs Legs mine," UBS said.

"Closing the Dioro deal will require around \$32 million in cash funding which we do not see as an issue."

miningnews.net

Chinese steel mills close to 40% iron ore price rise (Fri, 12th Feb)

CHINA'S original "national economic security" objective for jailing Stern Hu has again been undermined, as breakaway Chinese steel mills are reportedly close to agreeing to a hefty 40 per cent increase in iron ore contract prices. Such a rise would return the price of Australian iron ore close to the pre-financial crisis record set in 2008, which triggered the original investigation.

Industry and political observers say the chaotic nature of Chinese iron ore price negotiations and the awkward evolution of the case against Hu's iron ore sales team reflect China's internal steel industry, bureaucratic and political divisions.

Hu and three Chinese members of his Rio Tinto iron ore sales team were originally investigated and then detained in July last year for bribing steel mills and stealing state secrets to cause "huge loss to China's national economic security and interests".

But the allegations have since morphed into improperly obtaining commercial secrets and receiving bribes, as confirmed in the formal charges published by Xinhua news agency on Tuesday night and relayed yesterday to the Australian government, Rio Tinto and lawyers for the four defendants.

Donald Clarke, professor of law at George Washington University, said the detail of this week's charges was puzzling. "Receiving bribes is a bit like stealing from the company," he said. "But when Rio Tinto is not claiming to be harmed and has not been informed of any injury, then it is very odd."

A spokesman for Foreign Minister Stephen Smith urged that the case be "handled transparently and expeditiously", while Rio Tinto iron ore chief Sam Walsh said his company was "very concerned about the nature of these charges".

Zhang Peihong, lawyer for defendant Want Yong, said he was "very surprised" by Xinhua's publication of the charges after business hours on Tuesday night, as lawyers had met with authorities and clients this week but had been given no inkling of what would ensue. A Beijing political observer told BusinessDay: "The decision on how to put an end to this incident was made at the very last minute, with intensified internal debate and fighting."

Similar signs of division have again surfaced with Platts industry newsletter reporting large steel mills close to securing a 40 per cent price rise on new annual iron ore contracts. "China's five largest steel makers have indicated a willingness ... to pay provisionally 40 per cent more in 2010-11 iron ore contracts compared to the 2009-10 benchmark price," said the report.

The Platts report said the five mills, which implicitly include Baosteel, the anointed industry lead negotiator, gave tentative agreement in individual discussions but balked at setting a new industry-wide benchmark, which would be certain to cause more conflict with the industry association.

Mr Zhang said the trial of the four Rio employees was likely to be held soon after Chinese New Year and might be closed to the public, given commercial secrets are involved.

theage.com.au

Indian Farmers Fertiliser Co-operative buys GrowMax stake for potash project (Fri, 12th Feb)

India's IFFCO has acquired a stake in a Canadian potash explorer and plans to continue scouring the globe for other low-cost potash projects, the head of the world's largest fertilizer co-operative said on Thursday. IFFCO, or the Indian Farmers Fertiliser Co-operative has acquired a 10 percent stake in Calgary, Alberta-based Americas Petrogas (BOE.V), along with a 20 percent stake in its subsidiary GrowMax Agri Corp, which owns a potash brine project currently being developed in Peru.

"This should be an extraordinarily unique potash project, involving relatively low risk and low capital expenditures," said IFFCO Managing Director U.S. Awasthi.

India relies completely on imports to meet its potash needs and the country was hurt when the price of the crop nutrient spiked to record levels in mid-2008.

"We want to have some kind of security over raw material requirements," said Awasthi. "After this deal, we will keep looking for projects that can come into production quickly."

This deal is the latest sign of the growing importance of the global fertilizer business, which has seen a spate of merger and acquisition activity in recent months.

GrowMax's Bayovar potash project is adjacent to Brazilian mining giant Vale's (VALE5.SA) huge phosphate development in Peru - the project is also located near a deep sea port.

Bayovar is scheduled to begin production in 2012 with an initial output of 250,000 tonnes of potash annually at a cost of \$125 million.

GrowMax plans to ramp-up annual production at the site to about 1 million tonnes over a five to six year period, Awasthi told Reuters. Although details on an off-take agreement are yet to be finalized, IFFCO plans to buy 50 percent of annual potash output from the site. IFFCO is one of India's top fertilizer manufacturers and it owns a 34 percent stake in Indian Potash Ltd, the country's largest potash importer. IFFCO was formed in 1967 to produce fertilizer for the co-op sector in India. It currently produces more than 7 million tonnes of annually and has ties with 40,000 co-operative societies all across India. Its assets are worth more than \$10 billion and include manufacturing sites spread across the country, along with a series of joint ventures and investments overseas. (Reporting by Euan Rocha; editing by Rob Wilson)

(Thomson Reuters)

Newcrest eyes partners for WA project (Fri, 12th Feb)

Newcrest Mining is considering bringing in a partner for the O'Callaghans tungsten deposit near its flagship Telfer gold mine in Western Australia. "We've got a large tungsten deposit that we're quite confident will be easy to mine," chief executive Ian Smith told journalists today after the miner posted a solid rise in first half net profit.

"If some metallurgical test work comes in as positively as first indications would suggest, we will pursue how we go about working this deposit in a way that maybe another partner can get involved to take the tungsten from O'Callaghans off our hands.

"I don't think we see ourselves as people who want to participate fully in the marketing of tungsten."

Mr Smith said 80 per cent of the global tungsten market was controlled by China.

"They basically control the market and describe it as a strategic metal.

"Strategically, O'Callaghans is fairly important."

He said tungsten prices looked set to rise given that access to it has been restricted.

(wabusinessnews.com.au)

Ex-BlackRock manager joins Petropavlovsk (Fri, 12th, Feb)

A former star fund manager turned Dorset dairy farm-owner has taken time out from country life to join the board of FTSE 250 gold miner Petropavlovsk.

Graham Birch, who managed \$40bn of assets at BlackRock before leaving the investment manager last year to run a 2,300-acre dairy farm, will become a non-executive director at the miner.

At BlackRock, he managed one of the UK's most popular and best-performing funds. The BGF World Gold fund, which he co-managed with Evy Hambro, son of Petropavlovsk executive chairman Peter Hambro, outperformed its benchmark index in nine of the past 10 years.

"What I am hoping I can contribute is the experience I have gained from years researching the mining sector, especially the gold sector," Mr Birch said. "I think over those years I have picked up a lot of knowledge in the industry."

The World Gold fund, which was taken over by Evy Hambro after Mr Birch departed, holds 12.5 per cent of Petropavlovsk, which last year changed its name from Peter Hambro Mining. Mr Hambro makes no investment decisions involving the company.

After gaining a PhD in mining geology, Mr Birch, 49, worked at Kleinwort Benson before joining Julian Baring at Mercury Asset Management which, after being bought by Merrill Lynch, later became part of BlackRock.

Peter Hambro said that Mr Birch's joining the company was "like winning the Derby".

He added: "Graham has stayed a loyal supporter of ours and I am flattered he decided to take this role with us. As a fund manager he has had the chance to look inside pretty much every serious mining company in the world."

Mr Birch, who set up an agricultural fund at BlackRock, told the Financial Times that he had recently acquired a mixed arable farm close to his existing holding and would be working to integrate the two next year.

"I like all basic industries – mining is one and so is energy," he said. "These are where you are digging in the ground and producing things people need. Farming is similar, and I have been interested in it for some time."

(ft.com)

Rio profit up on China demand (Thurs, 11th Feb)

Rio Tinto says its long term outlook remains strong after a 33 per cent surge in net profit on China's insatiable demand for iron ore and a rise in copper and gold production. The mining giant reported a 2009 net profit of \$US4.872 billion (\$A5.57 billion), up from \$US3.67 billion (\$A4.2 billion) in 2008 and said it was still seeing a secular rise in demand for its commodities.

Underlying earnings were \$US6.298 billion (\$A7.2 billion), way below the previous year's \$US10.303 billion (\$A11.78 billion) but above analysts expectations of \$US6 billion (\$A6.86 billion).

Rio Tinto said it reflected the scale and strength of its operating performance, notably in the second half.

Strong volume gains, primarily from record iron ore sales and a significant increase in copper and gold production, boosted earnings by \$652 million year on year.

Underlying earnings before interest, tax, depreciation and amortisation (EBITDA) were down 36 per cent at \$US14.312 billion (\$A16.36 billion).

Rio Tinto chief executive Tom Albanese told a teleconference on Thursday "insatiable demand" from China had driven iron ore growth and the global miner's long term outlook remained strong.

"Despite the volatility of the past year, we still believe that we are experiencing a secular uplift in demand for commodities," Mr Albanese said.

"Our long term outlook remains strong as China, followed by India, continues to urbanise and industrialise over the next two decades.

"We are well positioned to take advantage of the next phase of growth in the industry."

Rio Tinto chairman Jan du Plessis said the company had taken decisive actions during 2009 to recapitalise its balance sheet and reduce operating costs.

"Achieving underlying earnings of \$6.3 billion is a commendable result for the group, especially during a year of rapidly changing macro economic conditions," Mr du Plessis said.

Rio Tinto didn't pay an interim dividend in 2009 but announced a final dividend of 45 US cents per share and says it will match that figure at least in 2010.

Mr Albanese said the company had emerged from 2009 leaner and more flexible and looked forward to its planned iron ore joint venture plans with BHP Billiton Ltd.

"We will maintain our rigorous focus on operational excellence in 2010, and start the year with enhanced options for value-adding growth," he said.

During the past 12 months there was a substantial recovery in the pricing of most of its key commodities, driven largely by government stimulus measures in response to the global financial crisis, he said.

"Looking forward, believe that the factors that drove price recovery in 2009 will continue through 2010," Mr du Plessis said.

"We expect that China will grow at over nine per cent and the emergence of the OECD from recession will provide further support.

"However, we are mindful that the wind down of stimulus packages across the globe and speculative asset bubbles could produce volatility," he said.

Rio Tinto's aluminium product group returned to profitability in the second half, after an \$US800 million (\$A914.49 million) half-on-half improvement in its underlying earnings.

IG Markets institutional dealer Chris Weston said the results were mixed, with very strong results in Rio Tinto's iron ore, copper and aluminium divisions, but with a number of exceptional items bringing its profit down.

"It was a very strong, positive result however if you take away one-off items it will have missed expectations.

"The narrative that we have seen so far looks quite woolly and doesn't give any pause for concern, but just how closely the market looks at these one-off items will determine whether the stock pulls back tomorrow," Mr Weston said.

He said while the company beat analysts' expectations on underlying earnings, its net profit of \$US4.87 billion (\$A5.57 billion) was below the expected \$US5.9 billion (\$A6.74 billion) tipped.

One-off items recorded by the company included net impairment charges of \$US1.552 billion, a \$US182 million break fee for failing to conclude a key deal with a Chinese company and restructuring costs of \$US231 million (\$A264.06 million).

Rio Tinto's stock jumped \$1.78, or 2.62 per cent, to close at \$69.72 on Thursday, before its result was announced, as the market punted on the miner beating analysts forecasts.

wabusinessnews.com.au

Copper demand to rise in Brazil as country builds (Thurs, 11th Feb)

SAO PAULO - Building works ahead of the 2014 World Cup and 2016 Olympics, fast growth and a strong auto industry, will secure stronger long-term demand for copper products in Brazil, an industry official said on Thursday. The Latin American country's copper product sector, represented by the Sindicel industry association, experienced an expected dip in 2009, of about 15 percent of physical sales volume, but expects to make a firm recovery this year.

"We think we can get back to 2008 levels, forgetting that 2009 existed," **Sergio Aredes** told Reuters in a telephone interview.

"It will be a pretty good year I think, but the perspective for the years ahead is even better," he said.

In this developing and fast growing nation, demand for copper products tends to track closely the overall performance of the country's economy. Years of strong growth in Brazil were only interrupted last year by a brief crisis-induced recession.

Aredes said 2010 product sales, including cables and semi-manufactured products, would contain about 400 000 or 410 000 t of copper after the quantity used dipped to roughly 360 000 t in 2009.

"This (estimate) takes into consideration the growth of 5 percent in GDP and industrial growth of 8 percent and an LME price of around \$6,600 on average," he said.

By comparison, sales in 2008 when the economy grew 5,1 percent, reached about 430 000 t.

CARS AND TRAINS

The copper market is strongly focused on determining the strength of demand from China while a pick-up in demand in the developed world remains elusive.

Copper futures traded 3 percent higher at \$6 702 on Thursday as data from China eased fears of a sharp reduction in loan availability.

Aredes said strong demand from some of the most copper-hungry sectors plus more construction and investment with the two global sports tournaments would assure firm demand for several years to come, particularly after 2010.

"The car industry is trying hard to raise exports ... civil construction will come back again and there is a lot of oil prospecting and production that will demand copper and cables of all kinds. Steel plants and energy generation and transmission will demand a lot of cables," Aredes said.

Aredes said Brazil's automobile sector, which turns out close to 3 million cars a year, continued a strong source of demand through 2009 after the government cut taxes on new cars, pushing sales to a record high at one point.

The construction of three new and badly-needed subway lines in Sao Paulo and more rail projects in other large cities would also add to

demand, he said.

Development of Brazil's offshore oil fields, particularly the deep-lying sub-salt reserves under a layer of salt rock below the sea bed, have already prompted state-controlled Petrobras to place orders for floating platforms.

A growing interest in developing electricity-generating wind farms in Brazil would also bring new custom to local copper product makers, Aredes said, while copper use in fixed line telephony was falling with the shift to fiber-optic cables.

"(Wind turbines) are something for 2011. There are many projects coming up and obtaining quotes and foreign companies are coming to Brazil to prepare to supply locally," Aredes said.

(Reuters)

ArcelorMittal holds cash ready for growth (Weds, 10th Feb)

ARCELORMITTAL South Africa (SA) is hanging onto cash of R4.3bn to give it the firepower to conclude the possible acquisition of the Zimbabwean steel operation Zisco and make its first foray into iron ore, management said on Wednesday. A decision from the Zimbabwean government was expected in December last year on the sale of the Zisco steel plant, which has a dedicated iron ore mine within 20km of the plant, ArcelorMittal CEO Nonkululeko Nyembezi-Heita told a media conference.

It's not clear when a decision is expected, she said, declining to give any details on what ArcelorMittal's offer was. ArcelorMittal was one of two companies shortlisted to acquire the company, which is 70% owned by the Zimbabwean government. The thinking is that Zisco will provide ArcelorMittal access to landlocked African countries.

South Africa's largest steel producer, which has capacity of eight million tonnes annually, is comfortable with its current supply of iron ore, but one of the sources, the Thabazimbi mine owned by Kumba Iron Ore and from which ArcelorMittal draws around 2.5 million tonnes of ore a month is coming to the end of its life.

The company also sources about 10% of its iron ore needs from other producers in South Africa.

Thabazimbi will operate until 2014 with a possible extension to 2016. The ore from the mine, one analyst said, is used to dilute the high phosphorous levels in the 6.25 million tonnes ArcelorMittal secures from Kumba's Sishen mines at cost plus three percent.

The analyst asked Nyembezi-Heita what ArcelorMittal's plans were to replace Thabazimbi ore. The remaining life of mine there gave ArcelorMittal enough time to decide on how to blend its ore and find another source, she said.

ArcelorMittal's plans to secure low-cost iron ore from Kumba's nine million tonne Sishen South mine came to naught in a long-running arbitration. ArcelorMittal has a favourable offtake deal with Kumba on the production from the Sishen mine and Thabazimbi. It does not extend to any new project developed by the Anglo American subsidiary.

"Our focus was on Sishen South, but now that it is out of our reach it does mean our efforts [to find another source of iron ore] need to be redoubled," Nyembezi-Heita said.

ArcelorMittal decided in December not to pursue the matter and look for alternative sources of ore.

One of the possible strategies is to develop an iron ore mine in South Africa, either alone or in a joint venture or securing an offtake agreement.

A number of junior black economic empowerment groups which have been granted prospecting rights on iron ore properties have approached ArcelorMittal, but there is nothing definite on the table, Nyembezi-Heita said.

Nyembezi-Heita was also asked whether ArcelorMittal's plans – put on hold in October 2008 – to grow South African capacity to 10 million tonnes by expanding its Newcastle plant would be iced if the Zisco deal went ahead, adding capacity of up to one million tonnes from two furnaces.

"Our expansion plans are based on what the markets do," she said, adding it was too soon to comment on expansion plans.

The Zisco iron ore is not of high enough quality to justify the expense of transporting it to South Africa, she said.

Anglo American is looking at its Scaw steel operation in South Africa. ArcelorMittal would be interested in buying certain parts of it if it was sold in segments. If Anglo wanted to sell it as a whole unit, the likelihood of ArcelorMittal being involved in any transaction with Anglo would be "much diminished," she said.

Another area ArcelorMittal wants to address is securing cheap hard coking coal. It currently uses around 1.1 million tonnes of coking coal a year at reduced capacity of 70-80%, but at full capacity it would consume 1.8 million tonnes a year. About half of this is sourced from soft coking coal produced in South Africa mainly by Exxaro Resources. The hard coking coal is imported from Australia.

ArcelorMittal has bought a 16% stake in Coal of Africa Ltd (CoAL) for R404m and the option to acquire 2.5 million tonnes a year of metallurgical coal. CoAL has a number of coal prospects in South Africa which it is developing and testing work is needed on the suitability of its deposits for ArcelorMittal's needs.

(miningmx.com)

Well on the path of recovery (Tues, 9th Feb)

As we had predicted a few days ago, the brief period of festivities coming up later this week-end - the Chinese new year and Valentine's Day - has brought some amount of cheer to the diamond industry. According to International Diamond Exchange (IDEX), global polished diamond prices are on the rise, especially in the category of polished stones below two carats.

IDEX also said for January 2010, the global polished diamond prices rose 0.8 per cent from December-2009 level. On an annualized basis, it indicates that global polished diamond prices could rise by as much as 9-10 per cent during 2010.

The polished diamond price research by IDEX showed that three carat and even smaller diamonds showed solid price gains ranging from 0.8 per cent to 3 per cent in January compared to the prior month of December. Unfortunately, polished diamond prices for **larger carat**

stones four carats and above fell modestly during the month between 0.5 per cent and 2 per cent.

That there was a discernible increase in the price of small diamonds came as good news for India's diamond industry working out of Surat in Gujarat, also the world's biggest diamond polishing center. According to a report in The Economic Times, industry sources said the price gain in small carat size has come a long time after the global slump in the end of 2008, following the economic crisis in the US. While the rough prices started firming up by mid-2009, registering 20 to 30 per cent growth, the polished diamond prices remained stagnant despite the increase in demand from emerging markets like India, Hong Kong, Middle East and China.

Incidentally, the Rs 30,000-crore Indian diamond industry is expecting a 25 per cent jump in sales this Valentine's. In value terms, the industry is hoping a Rs 700-crore business during the week before VDay.

The Indian diamond industry, which processes 80 per cent of the world's rough stones, had undergone one of its worst crises last year as demand slowed down. We agree with the reporter's view that like other commodities, the US market is what needs to be watched as American shoppers consume roughly half of global production of diamonds and diamond jewelry.

Since we are on India, here is more news from there. Fitch Ratings'2010 recently released its outlook for India's gems and jewelry sector and placed it in the "negative to stable" category, with a slow improvement in liquidity and credit profiles for many issuers. This has added to the season's cheer as this could be a prelude to a hike in prices in 2010.

The Fitch report is a reflection of slow recovery in domestic and international demand, and relatively low currency volatility leading to better realization by the industry operators. Fitch expects a significant recovery only towards mid-2010 for diamond polishers which are export-focused, whilst a recovery for export-oriented **gold** jewelry manufacturers is likely to take longer - in line with the generally expected economic recovery in the respective markets.

Diamond polishers began to show positive growth from Q309, due to the slow recovery in retail demand from key markets like the US, the EU and Asia (including China). However, part of the growth was also due to the weaker Indian rupee against the US dollar.

In other news, one of the biggest discoveries of diamond deposits in China is not expected to make any significant impact on the market despite its size. At least, that is what the head of the Geological Survey Bureau of Mines, Geological Science and Technology in China, Hai-Tao Fu wants us to believe.

The Rough & Polished website quoted Xiong Xianzheng, chairman of the Dalian Jewelry Association as saying that, "Global diamond output amounts to approximately 100 M carats annually while China accounts for 200,000 carats of the above output. Rough output from new mines in Wafangdian might account for 50 per cent of China's diamond output. Volumes of diamond production in China, even taking into account the new mines, will achieve merely 0.21 per cent of the global output, therefore the deposit will not affect global rough prices."

The deposit discovered in Wafangdian is said to be the largest scale discovery made by Chinese geologists in the past 30 years. The mine's reserves are estimated at 210,000 carats of gems, including diamonds.

Company news

Obtala Resources (AIM: OBT) said that alluvial diamond mining has re-commenced on the newly acquired Konoma alluvial diamond operation in Sierra Leone after completing a review and maintenance programme of both the 2Mtpa (million tonnes per annum) dense medium separation (DMS) plant and the earth moving equipment. Mining is being conducted at two separate locations, Bolima and Bakidu, both upstream along the Bafi river from the main mine camp. Obtala has further engaged two local prospecting teams to evaluate additional diamondiferous gravel deposits ahead of the mechanized mining fleet. The company is aiming to become a revenue generating business by the end of the second quarter of 2010.

Last month, Obtala acquired Sierra Leone Hard Rock Limited (SLHR) from **African Minerals** (AIM: AMI), which owns the rights to four mining licenses covering 162.40 sq km (square kilometres) within the Konoma project and seven exploration licenses over an area of 2,590 sq km and the DMS plant, a smaller mobile 5tph DMS sampling plant, a mining fleet, light vehicles, laboratory equipment and a main camp at Konoma.

North Vancouver-based **Stornoway Diamond Corp** says its Renard project is on track to becoming Quebec's first diamond mine. Stornoway will release a second economic assessment of the Renard project next month and then head into a full-fledged feasibility study. "We hope to make a production decision in 2011, with the first diamonds coming through the plant in 2013," Stornoway executive chairwoman Eira Thomas said.

Stornoway owns half of the Renard project, which is located in east-central Quebec some 800 kilometres north of Montreal. The exploration arm of the Quebec provincial government owns the other half. A mine at Renard had initially been estimated to cost \$308 million. That price tag could rise into the \$400-million range, reflecting ambitions for a larger plant and deeper mining, according to a spokesman.

(By Kishori Krishnan Exclusive To Diamond Investing News)

Highlighted Research:

Griffin Mining: Trading Update - Increased Production in 4Q 2009

News

Griffin Mining Ltd ("Griffin") has announced that the quarter ending December 2009 saw increased production compared to the previous quarter and that development and stope preparation at its Caijiaying zinc-gold mine in North-East China below the 1300 level is underway following the receipt of the appropriate licence earlier this month.

The Company expects to commence ore extraction from below the 1300 level later this quarter.

A summary of 2009 production is shown here (grades are Ocean Equities assumptions):

	1H '09 ⁽¹⁾	3Q '09	4Q '09	Total 2009	2009 attrib	OEL 2010e	OEL 2010e attrib
Ore processed (t)	33,152	114,233	125,379	272,764	163,658	600,000	360,000
Zn grade (% Zn)	5.50%	6.25%	6.00%	6.04%	6.04%	6.00%	6.00%
Pb grade (% Pb)	0.95%	0.76%	0.44%	0.64%	0.64%	0.50%	0.50%
Au grade (g/t)	0.60	1.44	0.83	1.06	1.06	0.80	0.80
Ag grade (g/t)	31.00	29.58	18.42	24.62	24.62	30.00	30.00
Zn produced (t)	1,732	6,783	7,141	15,656	9,393	34,200	20,520
Pb produced (t)	79	218	138	435	261	1,500	900
Au produced (oz)	163	1,351	1,673	3,187	1,912	7,716	4,630
Ag produced (oz)	11,565	38,019	29,695	79,279	47,567	231,485	138,891

Source: Griffin Mining, Ocean Equities.

(1) We have included the 33kt ore processed in June that Griffin announced 1st September 2009. It also stated that 48kt of low grade stockpiled ore was processed in 1H09 but we have not included this.

The zinc-gold Caijiaying mine is Griffin's principal asset (60% interest) and in 2008 processed 492kt of ore to produce ~23kt of zinc metal in concentrate. An average zinc price in 2008 of \$1,880/t enabled the mine to generate net profits of ~US\$7m.

Analysis

The fourth quarter production figures are generally in line with our expectations although commodity prices, zinc in particular, have exceeded our forecasts and consequently we think that the operating profit will be higher than the \$5.2m that we had been expecting. Using average prices for the last three months of the year, we now expect operating profit for 2009 to be +20% higher at \$6.4m. Of this, 83% is attributable to zinc sales, 14% to precious metals and just 3% to lead.

Using the production assumptions in the above table and our in-house 2010 commodity price assumptions (\$2,000/t Zn, \$2,000/t Pb, \$950/oz Au, \$15.0/oz Ag) we are expecting that in 2010 Griffin will earn attributable revenues of \$49m and operating profits of \$13m. Our production assumptions do not account for either: the intended upgrade of the mill from the current 600ktpa capacity to the intended 750ktpa capacity which the Company states will be complete by "autumn 2010"; or the processing of higher grade, sub-1300 level ore. We await the new resource and mine plan for this deeper resource which is rumoured to have higher grades for all metals. This will increase production levels, although we are assuming that the deeper mining will increase mining costs. We will re-evaluate our forecast production profile once we have a better idea of the sub-1300 level grades.

There has been more activity in the zinc space lately, no doubt driven by the amazing zinc price recovery of 2009: last month Nyrstar made a A\$230m bid for CBH Resources; a few days ago Australian firm Metals X acquired a 19.99% stake in Jabiru Metals (which at market value would be A\$220m); and just this weekend we read that Anglo wants bids for its zinc assets by the end of the month, rumoured to be worth \$800m. We think that 2010 will see the LME zinc price 'settling down' to a \$2,000-2,200/t range: LME warehouse stocks are relatively high and the sustained price recovery will encourage previously halted or reduced mines to restart which will slow the price rise. We also think that 2010 will see a vastly increased number of corporate transactions in the zinc sector, not least the impending Anglo deal.

Key Events / Newsflow

- Publication of the new JORC resource statement imminently.
- Initiation of mining at the deeper levels in the current quarter.
- Annual financial results to confirm profitability levels.
- Completion of expansion works to 750ktpa by end of 2010.

Chromex Mining plc - Company Update: Production at Stellite recommences (Weds, 10th Feb)

News: Chromex Mining plc ("Chromex" or "the Company") has announced that it has recommenced mining at its Stellite chrome mine on the Western Limb of the Bushveld Complex in South Africa.

The decision follows improved pricing and chrome market conditions which has led to the drawdown of its run-of-mine ('ROM') stockpiles over the past six months.

Analysis: The Stellite operation will initially produce ~20,000 t/month ROM, increasing to 40,000 t/month ROM, once the phase 2 upgrade to the beneficiation plant is completed and the dense media separation circuit ("DMS") is installed. The DMS is expected to be completed in 3Q'10 and will improve recovery margins and economic efficiencies.

Currently Chromex is producing 42% and 44% metallurgical grade chrome (Cr₂O₃) concentrate and has 31.9Mt in chromite resources. When the DMS has been installed at the beneficiation plant, in addition to the capacity increase, the Company will be in a position to market a sized lumpy chrome product in addition to chemical and metallurgical grade concentrates. The concentrate 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.

The South African chrome industry experienced a challenging year in 2009 due to prevailing macro-economic uncertainty with demand and

price. The South African mining industry as a whole has also been affected by the strong Rand, increasing costs and continued power issues.

Chrome/Ferrochrome Market Update: While 2009 has been a difficult year for the chrome, ferrochrome and stainless steel markets, near-term sentiment for the chrome sector is likely to be dominated by industrial production, particularly in China, driven by economic stimulus plans including significant investment in infrastructure. Chrome demand returned steadily to the market later in 2009, albeit at lower prices than those achieved in 2008 as existing inventories were consumed.

Traditionally pricing for chrome has been driven by ferrochrome demand and based on annual pricing. The benchmark contract price for ferrochrome, settled every quarter between South African producers and European steelmakers, has been set at US\$1.01/lb for the first quarter 2010 (previously US\$1.03/lb in 4Q'09). Spot ferrochrome prices in China have increased rapidly in 2010 (currently ~CNY8,050/t, compared to ~CNY7,150/lb in Dec'09) due to stronger demand and confidence amongst producers that an increase of 30% in contract prices for 2Q'10 is probable. The China CIF index for South African friable lumpy ore (35-40% Cr2O3) has also risen ~19% since Dec'09 to US\$190/t currently.

Xstrata recently announced the resumption of the Xstrata-Merafre Chrome JV back to 85% capacity. Up to 80% of its ferrochrome production was suspended progressively from late 2008 in response to rising inventories and weakened demand.

For South African ferrochrome and chrome producers in particular, the strong Rand and rising production costs coupled with lower US dollar denominated commodity prices have added pressure to earnings. It has been reported that South African state-owned power utility Eskom will raise its prices by approximately one-third each year for the next three years as it looks to fund a capacity expansion programme. The production of ferrochrome is an extremely power intensive process.

We expect that any future expansions to South African ferrochrome capacity will be impacted by the cost and availability of electricity as well as the Rand. Against this background we do not believe it is likely that there will be any restrictions for exportation of chrome ore and that new ferrochrome capacity will increasingly be built in Asia (particularly China), closer to end market demand, and where ferrochrome production is underpinned by competitively priced power, labour and capital, with chrome ore readily available for import.

In 2009, China increased stainless steel output by ~19%, compared to a 20% decline globally ex-China – total global production fell 9%. We expect to see the secular trend toward incremental demand for chrome relative to ferrochrome emerge as Asian stainless steel demand continues to grow faster than the traditional developed markets. Furthermore, we believe chrome demand will increase at a higher pace when compared to stainless steel output as chrome/ferrochrome gains market share and its intensity in stainless steel.

Key events / 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 ROM ore; Rand movements; and the continued review of potential corporate acquisitions and the political situation in Zimbabwe.

RELATED RESEARCH

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

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

Chromex Mining plc: Fully funded, cash flow positive chrome producer (12th Jan'09)

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

News: Greystar Resources Limited ("Greystar") has announced that it has submitted an Environmental Impact Assessment (EIA) to the Colombian Ministry – the first step in obtaining a mining licence for its wholly-owned Angostura project where the Company intends to build a truly world-class mine that will produce over 500koz Au and 2.5moz Ag a year for 15 years. The 1,814 page EIA will be reviewed by a team from the Environmental Ministry in a process that should take 6 months. The Company are expecting that the authorities may request further information (as is customary) and therefore is allowing 9 to 12 months for this approval. Greystar also submitted a Work and Investment Plan to the Mines and Energy Ministry in October 2009 based on the Minproc pre-feasibility study (see our comment dated 25th March 2009 for details). This plan must also be approved for the Company to obtain a mining licence.

Ocean Equities Comment: We are pleased to see that Greystar has embarked upon the first stage to obtaining a mining licence and that the Company has a 'realistic' view of the permitting process by allowing double the expected completion time. We have heard talk in the market that "Greystar are not the guys that will build this mine" and we are glad to see that the Company is doing everything in its power to prove these naysayers wrong.

We have previously brought to investors' attention that the appointment of Luis Arguelles as Project Manager in May 2008 was a real positive for the Company as he has vast experience of building and running large open pit gold mines in South America including 4 years as Mine Operations manager at Yanacocha for Newmont (+3mozpa), and periods for Gold Fields as General Manager at Choco 10 (Venezuela) and then Cerro Corona (Peru) where he advanced the project through construction and into production. We felt that Luis' appointment was a real statement of intent from Greystar that it was fully prepared to go ahead and build this mine, and although some may have been concerned to hear in October that CEO Dave Rovig would be stepping down from the position, we also felt that this was a positive statement of intent that Dave was happy to hand over the development of the mine to new blood. The fact that he is staying on as Chairman shows his strong support for the project and we are excited to find out who will fill the void as the man to build this world-class gold mine.

Criticism has been aimed at Greystar that they have been too slow in the development of Angostura but we counter this by saying that doing things correctly sometimes takes time, and we think that Greystar has managed the process of developing a very large mine in a relatively undeveloped country (at least for modern gold mining) very well so far – pushing forward with all the necessary steps to get to construction.

The permit applications will tie in with the expected completion of the bankable feasibility study in the third quarter and we feel that the fourth quarter of 2010 will be a key time for Greystar – in fact if you are of the opinion that there are major gold miners waiting in the wings for a takeover, we think that the receipt of a positive BFS and mining permit might be the ideal time to pounce.

We feel we should again take the time to highlight the enormous scale of the operation that Greystar shareholders can look forward to:

Steady-state production of ~580koz Au and 2.6moz Ag for 12 years from a 75kt ore per day open pit with a total 15-year mine life average of 511koz Au and 2.3moz Ag per annum.

Average C1 operating cash cost of ~\$350/oz (\$391/oz ex. Ag credits or \$9.10/t ore).

2-stage mining process: 1) initial oxide/transitional ore heap-leach averaging 300koz Au and 1.4moz Ag for the first 2 years; 2) additional sulphide floatation circuit from year 3.

Total capital cost of \$945m: initial capital requirement to begin operations of ~\$640m; later capital requirements to be paid out of cash flows including ~\$110 for the sulphide floatation circuit and an additional \$200m sustaining capital.

Using the Company assumptions of \$700/oz gold for 3 years, with \$650/oz thereafter, 6%NPV is \$558m with an IRR of 19%. If one assumes

(a more realistic) \$800/oz for the life of the mine, 6%NPV is \$1,158m with a 28% IRR, and if we use \$1,000 for the life of mine, the 6%NPV is \$2,022m with a 40% IRR.

Following recent warrant conversions and a C\$63m equity financing in September last year, Greystar is now very well funded with C\$120m in cash and no debt. We feel that this puts the Company in the box seat to raise the cash for the low initial capital cost (relative to the potential production and cash flows) required of ~\$640m.

Outlook for 2010: Publication of the bankable feasibility study which we expect in the third quarter; Listing of stock on the Colombian exchange; Appointment of new CEO – we expect an announcement at any time; and Receipt of the mining licence – maybe by the end of 2010.

RELATED RESEARCH

Ocean Equities Research: Stocks to Highlight in 2010 (Jan 19th 2010)

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

News: Nyota Minerals Limited (“Nyota”) has published results from metallurgical tests for 2 bulk samples of ore from its wholly owned Tulu Kapi gold project in western Ethiopia. The results are very positive, and indicate that not only could Nyota use industry-standard CIP cyanide-leaching to gain >95% gold recoveries, but that there is also the possibility of concentrating the pregnant solution before cyanidation – a process that has many economic and environmental benefits.

Samples were taken from both mineralised zones at Tulu Kapi (see our 30th November note for further explanation regarding the morphology of the orebodies) and the metallurgical test work was carried out at AMMTEC laboratories in Perth, Australia. Relatively large samples were taken (for such an early stage of study) with 154kg from Zone one and 123kg from Zone 2. The Company considers this work to be up to prefeasibility standards which gives it a high level of confidence in the results.

Recoveries were excellent with samples from both zones showing over 95% recovery at a 150 micron grind and over 98% at a 75 micron grind. The second (alternative) method of concentrating the solution before cyanidation produced even better results with Zone 1 showing over 99% recovery at both grind sizes and Zone 2 showing 96% for both sizes:

Standard cyanidation results:	Zone 1 ore	Zone 2 ore
Recovery at 75 microns:	98.1%	98.6%
Recovery at 150 microns:	95.1%	96.2%
Alternative cyanidation of concentrate results:		
Recovery at 75 microns:	99.5%	96.1%
Recovery at 150 microns:	99.5%	96.1%

The grinding index levels were as expected with the ore seen to be hard (but not ‘very hard’) with Zone one showing 17.4kWh/t (rod) and 16.3kWh/t (ball) and Zone two showing 19.1kWh/t (rod) and 18.2kWh/t (ball). Consumption of consumables seems low with the 24-hour leach process requiring just 0.3kg/t lime and 0.05% (0.5kg/t) cyanide solution strength. The alternative concentration method required a float time of just 15 minutes to achieve a 10% mass pull to concentrate.

Ocean Equities Comment: Today’s figures are very encouraging and it is hard to imagine better metallurgical study results. Whilst the recovery numbers are excellent, we were expecting good numbers as the ore is ‘free milling’. What we find most encouraging is that the consumable consumption rates (of lime and cyanide) are low which implies that the processing costs will be low.

We are also pleased to see that the initial testing for the alternative processing method of concentrating before cyanidation was successful. We have discussed this option previously with Management and have encouraged them to pursue it as it holds many benefits for the Company: by concentrating the solution (essentially a slurry of crushed ore) before applying reagents, 90% of the mass of the ore can be discarded and stored without the need for such intensive treatment as it will not have to be cleaned of cyanide. Not only will this reduce the size of the wet tailings that has to be stored and treated for cyanide detoxification, but this process will also reduce the size of the plant required dramatically which should reduce the capital cost (smaller plant = less steel and less engineering) as well as the operating cost.

Earlier this week, Nyota published the results of a Preliminary Assessment of Tulu Kapi that showed that the project has the potential to host a profitable gold mine. The study envisaged a mine with a throughput of 1.2mtpa at 1.2g/t Au with plant recoveries of 90% to give a steady-state production rate of 45kozpa and a total mine life of 10 years with 2 pre-production/construction years.

To put today’s recovery rates results into context: for a mine of this size, increasing the recovery from 90% as in the study to 98% results in an additional \$4mpa profit at today’s prices. Of course, if the operation is doubled in size (which we think is likely once the resource reaches 2moz Au), this would also double to an additional \$8mpa – a healthy increase for the operating margin.

The C1 operating costs from the study were \$530/oz for the base case and \$616/oz for the expansion case. We think that today’s metallurgical results imply that these could be reduced significantly as for operations such as this, the processing cost commonly represents half to two thirds of the overall production cost.

Upcoming Newsflow: Further drilling and assay results from the ongoing exploration campaign; and an updated resource statement that we think should increase the resource at Tulu Kapi to in excess of a million ounces – expected within 1H’10.

RELATED RESEARCH

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

Nyota Minerals: Tulu Kapi Trenching Results (Jan 20th 2010)

Ocean Equities Research: Stocks to Highlight in 2010 (Jan 19th 2010)

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

Iron Ore Holdings Ltd: Company Update: Maiden resource at Buckland Hills illustrates the potential for a number of further catalysts (Feb 2nd 2010)

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

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

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

UMC; and, further corporate activity in the sector both in Australia and internationally;

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

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

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

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

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

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

RELATED RESEARCH:

Ocean Equities Research: Stocks to Highlight in 2010 (Jan 19th 2010)

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

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

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

Iron Ore Holdings: Comparable transactions highlight favourable valuation anomaly ****Initiation of Coverage**** (Oct 21st)

Norseman Gold Plc: Company Update - Dec'09 Quarterly Report (Jan 28th 2010)

News: Norseman Gold ("Norseman" or the "Company") has announced an operating update for the quarter ended Dec'09. Production was 15,721oz (previous 16,160oz) at a cash cost of A\$933/oz (previous A\$900/oz), with gross cash margins improving quarter on quarter due to a more favourable realised gold price. Production from Bullen and Harlequin Declines continued in lower grade areas, with the focus remaining on capital development to access areas for future stoping. Airleg stoping decreased 11% quarter on quarter (27% year on year), resulting in treated tonnes of only 95,259 (previous 106,010t) and the capacity utilisation of the mill falling to ~55%.

The Norseman Project generated EBIT of A\$1.2m for the quarter (prior A\$0.3m), and cash at the end of Dec'09 was A\$24.9m including bullion. Importantly the Company commenced operations at its third mine, the OK Decline during the quarter. The first development ore has been delivered to the surface ROM stockpile and treated in Jan'10. This is the first gold to be recovered from the Company's third mine/fill the mill strategy and demonstrates the Company's ability to find and develop gold assets within the project area.

1H'09/10 gold production totalled 31,881oz at a cash cost of A\$916/oz. The Company has revised guidance for its FY'09/10 forecast to between 75,000 to 80,000oz (previously 80,000 to 85,000oz) at a cash cost of between A\$800 and A\$850/oz (previously A\$720 to A\$780/oz), implying 2H'09/10 production of between 43,000oz and 48,000oz Au at a cash cost of A\$725 to A\$800/oz. The Company is maintaining its guidance for FY'10/11 of 105,000 to 110,000oz at cash costs of between A\$670 to A\$730/oz from the Bullen, Harlequin and OK Declines.

Mine exploration and Third Mine Development continues to produce excellent results, with significant drill results having been returned from: the Perch Reef at the Harlequin Decline; the Star of Erin at the OK Decline; and the southern end of the North Royal Open Pit. A preliminary resource estimate for the Perch Reef at the Harlequin Decline has returned an Inferred Resource of 48,000t at 41.0g/t Au for 63,000oz. At the OK Decline, drilling results into the Star of Erin orebody continued to be positive and a new resource, initial preliminary reserve and a revised mining schedule for the OK Decline are expected to be completed during the Mar'10 quarter. The first stage drilling programme was completed at the southern section of the North Royal Open Pit and it is anticipated that mining, subject to dewatering and drilling to improve the confidence level of the resources to be mined, will now potentially commence in the Dec'10 quarter.

Analysis: While we believe it is disappointing that Norseman's operations during the quarter did not fully capitalise on the current favourable gold price, we believe the key to the Company's share price in 2010 will be its ability to execute its third mine strategy to fill the mill and delivery on its growth strategy. To this end we are encouraged by the significant progress made in Regional Exploration and Third Mine Development during the quarter and highlight that Norseman's share price is back to Oct'09 levels despite the favourable Australian gold price environment and operations remaining profitable. We believe any share price weakness offers an attractive entry opportunity into Norseman as 2010 is set to see its production profile increased and cash costs lowered.

The commissioning of the OK Decline is an extremely significant step forward and we believe the positive results for the Star of Erin orebody are illustrative of the likely favourable development of the OK Decline as existing resources (200koz Au; 850kt @ 7.3g/t Au) are converted to reserves, extending the mine life, with the potential to also improve cash costs. The initial preliminary reserve and first pass mining schedule for the Star of Erin orebody is expected during the Mar'10 quarter and provides upside to Norseman's current reserve statement and production profile.

Development of a potential fourth mine at the North Royal Open Pit gathered momentum with dewatering having pumped over 20% of water

volume by the end of the quarter and first stage drilling having returned a number of significant results. On the current rate of progress it is anticipated that mining could potentially commence at North Royal in the Dec'10 quarter (board approval potentially in the Sep'09 quarter).

Importantly the commissioning of North Royal would serve to further lower total cash costs and reduce the volatility in quarterly operations by finally filling the existing Phoenix treatment mill (which is currently operating at 55% capacity).

New Events/Valuation Triggers: We believe the key drivers to the Company's share price are: the Australian dollar gold price; further mine exploration drilling results, particularly from Harlequin/Perch Reefs; further Regional Exploration & Third Mine Development updates, particularly a favourable revision to the mining schedule for OK Decline, and drilling in the North Royal Open Pit; resource/reserve upgrades when available (including Perch, OK Decline & North Royal); continued improvement in operations at Bullen & Harlequin; ramp up of operations at the OK Decline; and increased visibility for a significant increase in production/decrease in cash cost as Norseman progresses its third mine/fill the mill strategy.

We will update our Australian Gold Sector report once the Dec'09 quarterly reporting season is complete and review our valuation forecasts for Norseman ahead of its half yearly accounts which are expected in Feb'10.

RELATED RESEARCH

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

Norseman Gold Plc: Company Update: Sept'09 Quarterly Report (30th Oct'09)

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

News: Rambler Metals & Mining plc ("Rambler") has announced that it will be investigating the potential of the 140L Mining Licence acquired with the Nugget Pond Mill (see announcement of 9th Sept 2009) to support a low capex, low cost gold mining operation. The Mining Licence contains an exploration target of 13,000 to 15,000 ounces of gold at a grade of 7 to 9 g/t within the Crown Pillar, Main Zone and Footwall Zone of the historic Nugget Pond Gold Mine which produced between 1997 and 2001.

The Nugget Pond Gold Mine began production in April 1997 at a milling rate of 350tpd, which was subsequently increased to 500tpd. Over the four years of its life, the mine produced a total of 169koz Au at a grade of 10.76 g/t, with recoveries of 95% achieved from the mill. Mining ceased in August 2001 as a result of depleting ore reserves and depressed gold prices.

The Crown Pillar, which is located 100m from the mill and primary crusher of the Nugget Pond processing plant, is estimated to contain between 5,000 and 10,000 tonnes of ore grading between 8 and 9 g/t Au, and is easily accessible by way of the underground ramp. The Company is currently evaluating the potential to mine the Crown Pillar as an open pit.

The Footwall Zone, which contains the bulk of the estimated tonnage (40-50kt at a grade of 7-8 g/t Au for an estimated resource of 9-12koz Au) requires additional delineation drilling as the strike and extent of the Footwall Zones had not previously been defined prior to the closure of the Mine. Rambler now intends to complete an engineering and resource study of the Nugget Pond gold deposit to evaluate the full potential of the property.

Analysis: The presence of an easily mineable high grade gold resource at Nugget Pond comes as a bonus that we had not expected when Rambler announced the acquisition of the Nugget Pond mill in September 2009 from Crew Gold for C\$3.5m. The mill had originally been acquired to process the base metal sulphides from Rambler's Ming Mine through the addition of a copper flotation circuit as well as to process the "free gold" that exists within the Rambler geological system.

While the acquisition of the mill had been viewed as offering the potential for toll treating other ore from the area and allowing the company to seek additional gold properties within the Baie Verte Peninsula (see the announcement of 21 September 2009), the existence of high grade, easily mineable ore offers the potential for the Company to generate cash flow which can be used to reduce the quantum of capital required to be raised to commission and put into production Rambler's Ming Mine.

If the Company is correct in its assessment of 13-15,000 ounces of high grade gold being contained within the old Nugget Pond Mine, at current gold prices and given the grade, we would envisage that Rambler should be able to make a margin of \$400 plus per ounce, resulting in net cash flow of up to \$5 million. Our understanding is that the engineering study will focus on converting the resource of the Crown Pillar into a mining reserve, and a decision on whether or not to mine the deeper resources will only be taken once dewatering has taken place and the condition of the historic stopes can be assessed.

As far as timing is concerned, it is likely that mining of the Crown Pillar will not take place until the second half of the current year at the earliest. Rambler is due to take over the running of the mill from 30 June 2010, at which stage it will be on care and maintenance. We would envisage that the decision to re-commission the mill to treat Nugget Pond ore will not be taken until there is a degree of confidence that it can be run continuously – ie once it is clear that the mill can seamlessly transition from treating Nugget Pond ore to ore from the Ming Mine. However, once the decision is taken, it should be a relatively quick and straightforward process to start mining at Nugget Pond – Rambler has the pumps available to dewater the Crown Pillar area, and the mine and mill are already permitted.

Key Events / Newsflow: Concluding an engineering study to determine the cost of the retrofit and other works needed to utilise the Nugget Pond mill for the Ming mine's copper-gold ore; Finalising the underground engineering plan for the Ming Mine – now that Rambler has a firm idea of the plan for ore processing, we think the plans for underground mining can also be completed; and pushing forward with financing options – we think that that Rambler will consider a variety of financing options such as bank debt, forward commodity sales or further equity issues.

RELATED RESEARCH

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

Griffin Mining Ltd: Company Update - New Mining Licence Issued (Jan 26th 2010)

News: Griffin Mining Ltd ("Griffin") has announced that the Chinese Ministry of Land and Resources ("MLR") has granted a new mining licence to Griffin's subsidiary, the Hebei Hua Ao Mining Industry Company Ltd ("Hua Ao"), to mine below the 1300 level at its Caijiaying zinc-gold mine located in North-East China. The mining licence runs for a period of 16 years until January, 2026.

The zinc-gold Caijiaying mine is Griffin's principal asset (60% interest) and in 2008 processed 492kt of ore to produce ~23kt of zinc metal in concentrate and the mine generated Net Profit of ~US\$7m. Caijiaying is a low cost mine and in late 2007 production of precious metal and lead concentrate commenced resulting in a new meaningful stream of revenue and a better zinc concentrate product which realises a higher price.

Analysis: The approval of the deeper mining licence is a hugely significant event for the Company, as previous drilling has indicated that zinc grades increase at depth, as do gold grades, which is particularly exciting for the future production profile.

The application for the licence was originally submitted in October 2009, and the licence had been expected to be received at the back end of 2009. While the delay in having the licence approved has no doubt been frustrating, the Company is now able to commence mining at the lower levels. In this context, preparatory work has already been undertaken, with improvements made to mine ventilation and capital

development / stope preparation having been undertaken to allow mining of the higher grade ore. We would anticipate that first ore will be mined towards the end of February / beginning of March following the conclusion of the Chinese New Year.

We anticipate that following the receipt of the mining licence, the Company will proceed with a new JORC resource statement which will provide more information about the sub-1300 level resource, and we will use it to re-evaluate our forecast production profile once we have a better idea of the grade at these levels.

Upgrade work to the mill continues with the installation of a second primary ball mill, new crushing circuit, tailings dam uplifts and the construction of a new tailings dam. It is anticipated that once completed (Q3'10), the mine will be able to increase its capacity from approx. 500ktpa to 750ktpa.

Our current forecast is for attributable production (Griffin's 60% share) in 2009 of: 10.2kt Zn; 350t Pb; 1,940oz Au; and 60koz Ag (previously 65koz), and 2010 attributable production of: 20.5kt Zn, 680t Pb, 4,130oz Au, and 122koz Ag.

Key Events/Newsflow: Publication of the new JORC resource statement; Initiation of mining at the deeper levels; completion of expansion works by 2010.

OCEAN STOCKS TO HIGHLIGHT IN 2010

Seeds of Change: planted in 2009 and now ready to grow in 2010 (19th Jan 2010)

Source of the opportunity: One year ago we proposed here to investors that, despite record levels of volatility and distress in the economy, a structural checklist of key themes would guide us in our stock selections. That checklist proved to be surprisingly prescient and consequently our stocks handsomely outperformed all benchmarks over the year. This year we start at a very different base of pricing, yet still with many major concerns to be digested. Notable amongst these are the political ramifications of the recession with elections looming in many countries and the macro consequences of the massive global monetary easing. Once again there is no shortage of things to worry about.

The good news is China. Chinese steel production remains robust, and we believe that the sustained strength of Chinese imports in the last quarter of 2009 caught most market participants by surprise (see our Iron Ore Sector Update, 11th Jan'10). As a result, pricing for iron ore, coal and the majority of base metals have strengthened considerably, with a positive impact on share prices, albeit from a low base.

For 2010, we believe that key items from our checklist continue to be relevant in the current economic environment, namely:

- **Consolidated v fragmented markets:** We prefer exposure to consolidated rather than fragmented commodity markets. They will enjoy greater pricing power in the current economic environment and face less risk that the return of marginal supply will limit price appreciation in an improving demand environment.
- **Base v bulk commodities:** We believe the reduced price volatility of contract versus spot price mechanism favours bulk commodities which also enjoy additional leverage to the growth out of China, particularly significant infrastructure investment.
- **Resources China is long v short:** We prefer those commodities where China is short to commodities where China is long, in industries where China demand is the primary driver of pricing.
- **Sovereign risk:** In an improving commodity cycle we would expect projects to become increasingly differentiated and therefore prefer lower sovereign risk countries.

The driving themes continue to be strong secular demand for commodities created by industrialisation of emerging markets which remains strong relative to supply; the fact that precious metals can't be printed like the currencies in which they are denominated; and, most importantly, that our companies are all evolving fast in growing their resources, bringing new production on stream, corporate re-structuring or acquisitions, and rapidly-advancing awareness of their merits in financial markets.

We at Ocean Equities do not claim Delphic foresight of global growth, individual commodity prices nor yet the winner of the World Cup. But we do understand the companies we follow.

The attached one-pagers will help set the framework for how investors should consider these stocks. We remain confident that as these companies achieve their goals in 2010, their share prices will come to reflect their quality and their growth prospects. We have also included a number of private companies which will be looking to come to the market in the year ahead and are, we believe, of interest to investors.

Company profiles: Over the following pages we present company profiles of companies to whom Ocean Equities acts as broker, or has a relationship with, setting out an overview of the company, its assets and highlighting key themes as we enter 2010.

Listed:

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

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

Private:

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

Kirkland Lake Gold - New Aggressive SMC Drilling Campaign Yields Superb Results (Jan 12th 2010)

News: Kirkland Lake Gold ("Kirkland") has released the first drilling results from its aggressive exploration campaign that is intended to extend the SMC (South Mine Complex) zones to the west and east of the current proven limits. Today's release concerns two drill holes that have both intersected superb widths and grades of gold mineralisation:

- Hole 53-1520 – 6.14oz/t (210g/t) over 3.6m true width.
- Hole 53-1506 – 8.60oz/t (295g/t) over 1.6m true width.

The Company believes that these results demonstrate an extension of the Lower D North zone, one of the larger of the 15 zones that comprise the high grade SMC (which totals 1.6moz @ 0.75oz/t). Hole 53-1520 is 330m (1,000 feet) to the west of any previous intersection of the Lower D North zone and Chief Geologist Stewart Carmichael has stated that today's intersection confirms his belief that significant mineralisation extends to depth and that the zones are open in all directions.

Analysis: For those that are close to the Company and have followed Kirkland for the past couple of years, there has always been a high level

of confidence that the SMC zones extend beyond their current limits, and today's press release has proven this to be the case in spectacular fashion.

Historically, it has always been problematic to access the SMC zones with exploration drilling as drilling from surface is expensive and the orientation of the mineralised zones meant that to obtain meaningful intersections, time-consuming and costly drifts were needed to enable the drill rigs to move out from the old workings to better positions with better entry angles. Kirkland has been doing just this for the last 2 years (in fact this development work has benefited from the unfortunate slow-down in production in late 2009 due to the borehole collapse) and this has allowed the initiation of an extensive, aggressive exploration programme designed to extend the SMC zone limits.

We stated in our last comment (15th December 2009) that we expected this programme to yield good results as previous 'step-out' drilling around the SMC (see our comments from 29th April 2008 and 29th April 2009) has hit 'SMC-like' gold mineralisation. However, we are pleasantly surprised that such spectacular results have started to arrive so quickly.

The Lower D North zone is one of the most important SMC zones and its proximity to the largest zone, the New South Zone, means that it can share underground access tunnels. This new intersection which is being interpreted as an extension of the Lower D North zone is ~330m (1,000 feet) from the nearest previous Lower D North intersection (see Figures 1 and 2 for further detail). The currently known strike width of the Lower D North zone is ~350m and previous drilling has shown true widths of between 0.5m and 6m. If we assume that the Lower D North does indeed extend another 330m down dip as per today's intersection, with a strike length of 250m, an average width of 3m and an average grade of 1.5oz/t (compared to today's intersection of 3.6m at 6.14oz/t), this extension to the orebody could contain over 1moz of gold.

Of course we will need further infill drilling to prove the continuity of mineralisation before we start incorporating these resources into our mine plan or valuation, but this just shows the amazing prospectivity of the SMC and the Kirkland Lake gold camp as a whole.

We have stated previously that we feel that the expansion of the SMC is key to Kirkland's future, and we are re-stating this today, reminding investors that Kirkland currently has 3.3moz in resources, of which 1.6moz is in the SMC. We are of the view that potential acquirers are looking for at least 5moz in the ground at Kirkland, specifically the SMC before they entertain any thoughts of M&A activity and we feel that today's drill results go some way to showing that this could be achieved in a relatively short timeframe.

Upcoming Events / Newsflow: We are expecting more drill results from this aggressive exploration programme and hope that they continue to show results as good as today's. Although these new discoveries will need extensive infill drilling before they can be reflected in the official NI43-101 resource statement, we feel that the market will be able to interpret these results and their positive implications and that the share price will accrete accordingly.

In terms of production, we expect the recovery to full production after the borehole collapse to continue until Phase 1 of the production expansion plan (to get to 100kozpa) will be completed by July 2010 and Phase 2 (to get to 180-200kozpa) will be completed by January 2012. Quarterly results and regular operational updates to confirm this recovery of full production should also buoy the market for Kirkland.

Exhibits presented in full research note.

RELATED RESEARCH:

Kirkland Lake Gold: Quarterly Results and Operational Update (Dec 15th)

Kirkland Lake Gold: Operational Update (Nov 5th)

Kirkland Lake Gold: Operational Update – Financial Results Q1 2009 (Sept 15th)

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

Source of the Opportunity: There has been a significant rise in iron ore spot prices since mid-Dec'09, up 27% to US\$135/t, establishing a premium of ~100% to the non-China JFY'09/10 contract price which was agreed by the Japanese and Koreans in May'09. Chinese steel production remains robust and we believe the sustained strength of Chinese imports in the last quarter has caught most market participants by surprise in a period where the traditional industrialised steel countries are now raising capacity utilisation. In our view this has led to an extremely tight iron ore market with limited visibility for supply catching up soon.

General consensus is becoming increasingly more positive about near term seaborne demand and future increases in iron ore contract prices with expectations for an increase in the order of ~20-30% yoy for JFY'10/11. Unlike previous rallies in spot iron ore prices the recent surge in pricing, and increased press coverage, has fed through to the equity prices of a number of iron ore juniors with the sector enjoying a modest re-rating. Probably the best reflection of this is Fortescue rallying 18% in the last week to A\$5.29/sh on no company specific news flow – its highest level in Sep'08.

The driving force behind the recent rally in spot prices has been a tight seaborne market, driven by extremely strong Chinese imports as evident in Dec'09 preliminary data totalling 62.16mt (up 21.7% mom, +80% yoy, and the second highest monthly import figure on record), coupled with seasonal factors and increased market speculation. While it is likely that iron ore spot prices may experience a period of consolidation in the upcoming months, we do believe that the short to medium term fundamentals for the seaborne iron ore market remain extremely favourable and highlight that China's full year imports were up 40.8% yoy.

We believe the majority of renewed investment interest in the sector has been made with a medium to longer term view realising that even at the 'current JPY'09/10 contract price' that the majority of Brazilian and Australian iron ore opportunities with economic access to infrastructure will generate significant operating margins. Furthermore, we believe iron ore junior equities offers greater leverage to the favourable outlook for iron ore pricing than the traditional diversified iron ore suppliers, and we expect stock picking in the junior sector to offer significant alpha.

Review of 2009: In our view the initial catalyst for the recent spot price appreciation was the tight iron ore market, with Chinese imports for Dec'09 up 21.7% and the second highest month on record (behind Sep'09 which we believe is an anomaly). Tightness in other steel feed commodities can also be seen in a number of bulk commodities including coking and thermal coal. However, the extent of the rally has also been influenced by the: combination of net supply/demand fundamentals; seaborne trade flows and regional demand; a more bullish tone to general commodities; increased trader speculation; and availability of cargo for spot deliveries. Seasonal factors such as: Chinese buying before Chinese New Year; adverse seasonal weather; and, potentially iron ore consumers topping up supply potentially ahead of the upcoming annual contract price negotiations, have also added to the rally in the iron ore spot price.

2009 saw the seaborne iron ore market contract in absolute terms for the first time since 1999, with spot prices hitting a low of ~US\$60/t (CFR China) in 2Q'09. The lower prices curtailed a significant portion of Chinese domestic iron ore supply – it is estimated that ~200mt of supply is marginal or loss making at between US\$60/t and US\$80/t. The notional cost curve for Chinese domestic production in Exhibit 2 illustrates this point and official Chinese statistics report a headline increase in domestic iron ore production of only 3.5% for 9M'09; we believe this actually reflects a significant decrease on a contained Fe basis (not reported).

The economics of regional iron ore production had a significant impact on traditional supply and demand flows in the seaborne market. China significantly increased its demand for foreign sourced ore, consuming what is traditionally shipped to Europe and other industrialised countries, and DSO operations of the Australian and Brazilian suppliers remained extremely profitable and record levels of production. This trend is probably best reflected by China importing 628.3mt of iron ore in 2009, up 182.2mt or 40.8% yoy.

Outlook for 2010: The prospect of returning global economic growth in 2010 and traditional mills in Europe, Japan, Taiwan and Korea now

raising capacity utilisation bodes well for iron ore demand, despite it being likely that a further significant portion of higher cost supply comes back on stream, particularly in China. Expectations are for global crude steel production to rise by +10% in 2010, to a record 1.4bt, which would support a ~125mt rise for imported iron ore taking global seaborne trade >1bt – however, against Chinese imports increasing 182.2mt yoy during CY'09 these forecasts look conservative. To help put the significance of this into a historical context, the average growth rate in the global seaborne market over the last five years (pre CY'09) has been ~60mtpa with iron ore contract prices having increased 169% over this period. China's steel production up until 2008 had grown from a base of ~100mt to more than 550mt in eight years (estimates are for CY'09 production of 565mt with capacity of up to 700mtpa), accounting for almost the entire global growth in the iron ore market in that time. The fact that China imported 62.16mt of iron ore in Dec'09 is a timely reminder of China's likely impact on pricing and demand in the seaborne market during 2010.

In our view the current rally in pricing for bulks is being driven by the positive outlook for the steel sector, both in China and globally ex-China, and supply remaining tight. A key element contributing to this tight market has been China's imports for bulks having increased significantly consuming supply that traditionally flows to Europe, Japan, Taiwan and Korea. With prices for steel production now improving in most regions, albeit at a lesser rate than the recent appreciation in spot iron ore prices, short term demand and pricing for iron ore is expected to remain favourable particularly given supply appears set to struggle to meet demand, impacted by availability of freight, infrastructure and the long lead time for new project development.

There has been significant news flow within our Australian junior iron ore peer group recently, particularly with BHPB's A\$204m take out of UMC and the hostile A\$164m battle for Polaris, and the share price performance has enjoyed a rally (Exhibit 7) supported by the improving market fundamentals discussed in this note. We continue to believe Iron Ore Holdings ("IOH") is the standout in this sector.

Elsewhere around the global there has continued to be significant corporate and strategic activity in the iron ore sector:

- China Railway Materials Commercial Corporation ("CRM") on Jan 6th announced a strategic agreement and investment in African Minerals in respect of its flagship iron ore project at Tonkolili and the related infrastructure projects in Sierra Leone which will see them pay ~£150m for a 12.5% stake in the Company.
- Xstrata in Nov'09 made its first step into the iron ore market via its agreement with Jumelles Ltd, the owner of the Zanaga iron ore project in the Republic of Congo, to fund at least US\$50m of evaluation work and possibly acquire the entire project. The Zanaga project is a very early stage opportunity in what could be a world class project. Interesting the investment marks a shift in Xstrata's typical corporate investment strategy, to smaller-scale, early stage growth projects.
- In Nov'09 China made its first significant investment into the Brazilian iron ore sector via Wugang acquiring a 21.5% stake in Brazilian iron ore miner MMX for \$400m. Wugang has been very active in the sector having recently also struck iron ore deals in Australia, Venezuela and Canada.

From a specialist natural resource broking house perspective, Ocean Equities is increasingly seeing longer term, more fundamentally based financial investors seeking to gain exposure to both public and private junior to mid tier projects which can demonstrate an economic infrastructure strategy. We expect to see an increased number of IPO's during 2010 and believe that the likely IPO of Brazilian iron ore development company, Ferrous Resources, on the London Stock exchange will illustrate the markets appetite for new iron ore projects.

IRON ORE RELATED RESEARCH:

Ocean Equities Research: Stocks to Highlight in 2010 (Jan 19th 2010)

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

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

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

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

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

Iron Ore Holdings: Comparable transactions highlight favourable valuation anomaly **Initiation of Coverage**** (Oct 21st)**

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

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

More Ocean Equities Research:

Wavenet International Ltd (ASX-WAL): Option over a World class Tungsten asset & Current Valuation offers an Attractive entry point **Ocean Equities Research Initiation**** (Dec 18th 2009)**

Electrum Capital Inc: A junior company with big scale assets, a big company management team and first class shareholder register (Nov 30th)

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

Griffin Mining: New Mining Licence Application Accepted and Caijaying Returns to Profitability in September Quarter (Oct 27th)

Norseman Gold Plc: Company Update - Sept'09 Quarterly Report (Oct 30th)

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