

This is not the end. It is not even the beginning of the end...but it is the end of the beginning.

Winston Churchill, 1940

An announcement of Friday September 26th might have slipped by almost unnoticed. Its impact could be far reaching. We have followed the struggle of **African Consolidated Resources** for a long time now and admired its David and Goliath struggle against the Zimbabwe government. Its Marange diamond field holdings have huge potential. Low values per carat are compensated by a proportion of high value stones (like Rio Tinto's Argyle) and exceptional carats per tonne grades.

ACR played by the book in registering its interests but in 2008, when President Mugabe first took an interest, he sent in the army. Thousands of illegal miners had descended on the claims and a state of chaos, accompanied by bloodshed, ensued. ACR stuck to its guns and the Zimbabwean High Court has now upheld its rights to the property. The way forward will not be easy but this may prove to be a landmark ruling. Both sides need to grab this one, for the sake of the nation and of Africa in general.

Pressure has come from a number of sources to make it possible. The Kimberley Process, the self-regulating diamond industry body, has visited Marange recently. It has come within an ace of declaring Zimbabwe's exports illegal. Easier said than done you might think, but the stones are a readily identifiable greenish colour. The smuggling routes are known and if exposed would embarrass some senior sectors of the industry. Following on this, Martin Rappaport, who is having some success in setting up a diamond commodities market, told the recent International Jewellery London, that he will not handle the distinctive green-hued stones and warns everyone off until they can comply with the Kimberly Process. That might be close. A couple of weeks ago there was a two-day mining indaba in Zimbabwe's capital, Harare, where the government was at pains to assure the investing public it was open for business. This might just be its first-up card. We must hope so.

African Consolidated Resources (AIM, APCR 14.25p, up 1.5p on the week; Hi-Lo 15.0p-13.5p) is capitalised at almost £40 millions. It will need money to develop Marange but it has other, measureable assets. Others will also move into the field and provide the catalyst for a mining rush. Despite the mauling it has received, Zimbabwe has much to offer both short and long term. Its agricultural and geological potential are not in doubt. It has infrastructure, high literacy and work skills. Just imagine, an African country making the grade on investment rather than hand-outs. In all of this it would be unwise to discount the influence of President Zuma of South Africa. He has been much more demonstrative than his predecessor in advising Zimbabwe that in the long game, pragmatism outwits politics.

Maybe, just maybe, it is the beginning of the end.

Exchange Traded Metals

It was a week for the number obsessed. Not only did the metals register sizeable falls, they went through trigger points. Like copper below £6000, aluminium £1800, zinc £1900. Exchange stocks again nudged up. The big miners slid off, too, but remain on the hold-on-to list. It will take more than this to persuade use the market is down.

Metal Stocks in LME Warehouses

| Metal | 21 September 2009 | 28 September 2009 | % Change |
|-----------|-------------------|-------------------|----------|
| Aluminium | 4,624,150 | 4,597,675 | -0.57% |
| Copper | 324,375 | 340,875 | 5.09% |
| Lead | 124,150 | 125,175 | 0.83% |
| Nickel | 118,802 | 117,408 | -1.17% |
| Tin | 23,335 | 24,010 | 2.89% |
| Zinc | 435,000 | 436,225 | 0.28% |

Precious Metals

It is hard to be a gold bear right now, although the price dipped below \$1000 at the close. We note that jewellery fabrication is at a low ebb; not a good sign as we run into Christmas. Scrap arisings have also gone up on higher prices. On the plus side, South Africa's output continues to slide as its mines get older and the dollar gets weaker. Then interest rates are near zero internationally, so for now the bulls have it. But we don't hear it for \$2000 or even \$1500.

Bulk Commodities

Goldman Sachs has added its weight to the belief that Chinese demand will drive the iron ore trade for years to come. Last year it imported 444 million tonnes, about 70% of all seaborne trade in the mineral. The investment house also sees coking coal at \$155 per tonne in 2010, compared with a current \$170. Steel output is also on the up globally. Macquarie notes August at 106.5mt, up 2.5% from July and the highest since September 2008. Pig iron production grew 8.85 August over July. Meanwhile world steel production is noted as 82.5% capacity last month compares with 98.6% in June 2008. So we are getting there.

Commodity Price Movements

| Commodity | | 21 September 2009 | 28 September 2009 | % Change |
|-----------|-----------|-------------------|-------------------|----------|
| Aluminium | \$1/tonne | 1921 | 1790 | -6.82% |
| Copper | \$1/tonne | 6230 | 5965 | -4.25% |
| Lead | \$1/tonne | 2170 | 2175 | 0.23% |
| Nickel | \$1/tonne | 17300 | 17020 | -1.62% |
| Tin | \$1/tonne | 15090 | 14875 | -1.42% |
| Zinc | \$1/tonne | 1905 | 1859 | -2.41% |
| Gold | \$/ounce | 1013 | 995 | -1.78% |
| Silver | \$/ounce | 17.35 | 13.14 | -24.27% |
| Platinum | \$/ounce | 1339 | 1305 | -2.54% |

| | | | | |
|-----------------|--------|------|------|--------|
| Brent Crude Oil | \$/bbl | 70 | 64.6 | -7.71% |
| Platinum/Gold | Ratio | 1.32 | 1.31 | -0.76% |

Exchange Rates

Sterling took a well-predicted pounding against the dollar and Euro with the threat of more to come. But it is likely to be short-lived if the Bank of England cuts the interest rate on reserves held by commercial banks. The logic behind that is that it will stimulate them to lend more money out to industry. Gilt yields reacted by diving to record lows (two-year at 0.74%). Word on the street is that the Bank is determined to keep rates low and is not concerned about inflation. We are a long way from being out of this recession. Looks like bears have it for now.

| | 21 September 2009 | 28 September 2009 | % Change/week |
|---------------|-------------------|-------------------|---------------|
| £:\$ | 1.63 | 1.60 | -1.84% |
| €:£ | 1.11 | 1.09 | -1.80% |
| £:SA Rand | 12.12 | 11.91 | -1.73% |
| US\$:Aus\$ | 0.87 | 0.86 | -1.15% |
| Br Reale:US\$ | 1.77 | 1.76 | -0.56% |
| \$:€ | 1.47 | 1.47 | 0.00% |
| \$:SA Rand | 7.43 | 7.44 | 0.13% |

Share Price Movements, Majors

So as the metals slipped off, so did the conglomerates. Bar **Anglo**, which did a bit of muscle flexing, telling **Xstrata** to put up or shut up on its merger/bid of equals. This is the sort of stuff a market needs. So Anglo dropped 0.6% whilst Xstrata plunged 6.3%. Mick Davies won't like it. Don't miss next week's response.

ENRC came off about the average, 4.65% as the market digested its £584 million all-cash bid for **CAMEC**. Now, as we noted last week, ENRC has made a strategic decision to take on some of the more volatile parts of Africa. With **CAMEC** it inherits the legacy of 'Billy' Rautenbach. He has just settled terms with the RSA government to become persona grata again there, after ten years of exile. This 'entrepreneur' has serious previous. We assume ENRC knows what it is doing. Its offer of £0.20 per share for **CAMEC** is now formal, so there is no action; closing price on AIM, 26 September was 19.5p Done deal we assume. With it will come copper/cobalt in the DRC and platinum in Zimbabwe. ENRC is also in discussions with **African Minerals** (AIM 369p. Hi-Lo 389p-20p) which has iron ore in Sierra Leone. You pays your money....

Glencore. Ignore it at your peril. The mega, privately-owned commodities group, sits on 35% of **Xstrata** and we have a sneaky feeling it is cooking something up. In the half year to June 30th it reported \$1.1bn profits (previously \$2.6bn). Now it has offloaded its US zinc mine Nyrstar for \$126m. Not a lot but possibly a pointer. The marriage of Glencore and Xstrata would make a lot of sense and the former is already feeling the temperature of the market.

BHPB is back on the exploration trail, promising a spend of \$10billion in 2010 on the back of improving demand. Its annual report, just out, warns that we are not about to return to a supercycle. Despite what it said last week (and we reported), it is on a fishing trip in Zambia. Copper and Cobalt – what else? Never trust a conglomerate.

Rio Tinto continues to shed its feathers like a duck in the mating season. Just gone is its Alcan Composites Division for \$349m, on a P/E of about 6.5. Slowly the balance sheet is recovering but it still sits in limbo land, not so much predator as prey. The SOTBO* award this week goes to it as they announced in a press release: “The acquisition of Alcan at the height of the commodities boom was ill-timed.”

*SOTBO=Statement of the Bleeding Obvious

| Stocks | 21 Sep 09 | 28 Sep 09 | % change | 12-mo hi-lo | % above low |
|---------------------|-----------|-----------|----------|-------------|-------------|
| FTSE 100 | 5173 | 5082 | -1.76% | 6364 – 3530 | 43.97% |
| Anglo American | 2072 | 2059 | -0.63% | 3550 – 906 | 127.26% |
| Antofagasta | 766 | 734.5 | -4.11% | 780 – 243 | 202.26% |
| BHPB | 1750 | 1692.5 | -3.29% | 1929 – 731 | 131.53% |
| ENRC | 892 | 850.5 | -4.65% | 943 – 183 | 364.75% |
| Gem Diamonds | 251 | 236.2 | -5.90% | 1124 – 116 | 103.62% |
| Hargreaves Services | 703 | 768 | 9.25% | 768 – 415 | 85.06% |
| Kazakmys | 1124 | 1055 | -6.14% | 1640 – 171 | 516.96% |
| Rio Tinto | 2738 | 2630 | -3.94% | 5002 – 822 | 219.95% |
| UK Coal | 115 | 113.25 | -1.52% | 164 – 70 | -60.68% |
| Vedanta | 2010 | 1882 | -6.37% | 2274 – 358 | 2588.57% |
| Xstrata | 965 | 904 | -6.32% | 2510 – 288 | 152.51% |

Share Price Movements, Small and Medium Caps

Petra Diamonds is never far from the spotlight. Post the dismantling of the DeBeers monopoly in 2001, it set out to become a 1mct producer and has achieved that milestone. But at a cost. It bought some expensive ex-DeBeers underground operations in South Africa and had an abortive J/V with BHPB in Angola. Old mines come with old problems and Petra has had its share of these at both the Cullinan and Koffiefontein operations in RSA. Throughout, Petra has been supported by Saudi-related financier, the Al Rajhi (9%) and Saad Investments Group which, in late 2008, owned 44% of the ordinary shares. As Petra is Bermuda-registered, it is not subjected to the takeover code. But there is nothing uncomplicated about the company. Saad had its assets (\$9.2bn of them) frozen by a Cayman Islands court in July 2009. Neither of these companies follows the straight equity route and Petra has a \$20m convertible bond outstanding with Al Rajhi. It was due for repayment on September 18, but has been extended by 18 months and adjusted. The conversion price has dropped from £1.30 to £0.85 until 18 December and then £0.65 until maturity. Petra's results for 30 June 09 are due Tuesday 29th September. At the last count

(31 December 08) it had \$10.5m in the bank and \$75.4m of debts. Closing price Friday 25th September of 58.5p was up 6.5p on the day. Hi-Lo 103p-23p. The diamond market is on the up, but this one is a roller coaster. There are safer bets.

Baobab Resources (Aim 8.75p) is doing OK compared with 6.25p a couple of weeks ago (see 11 September 09 report) but its official estimate of its iron-vanadium-titanium resource in Mozambique is a bit of a mixture. 47.7mt at interesting grades of c.25% iron, 0.18% vanadium and 9.7% titanium need boosting in terms of tonnage and the next step is a conceptual study. This will be a complicated process operation. Leave it for now.

| Small Caps | 21 Sep 09 | 28 Sep 09 | % change |
|--------------------|-----------|-----------|----------|
| Cape Diamonds | 4.62 | 4.75 | 2.81% |
| Cluff Gold | 75 | 72 | -4.00% |
| Dwyka Resources | 7.25 | 7.25 | 0.00% |
| Eurasia Mining | 1.15 | 1.15 | 0.00% |
| Firestone Diamonds | 39 | 36.75 | -5.77% |
| Gemfields | 6.88 | 6.5 | -5.52% |
| Goldplat | 10.5 | 11.0 | 4.76% |
| Herencia | 0.7 | 0.72 | 2.86% |
| Kalahari | 208 | 195 | -6.25% |
| Kefi Minerals | 2.38 | 2.38 | 0.00% |
| Kopane | 13.5 | 13.75 | 1.85% |
| Petra Diamonds | 47 | 58.5 | 24.47% |
| Strategic Nat Res | 10.25 | 11.0 | 7.32% |
| Tanzanite One | 15.5 | 17.0 | 9.68% |
| Toledo Mining | 38.5 | 38.5 | 0.00% |
| Vatukoula Gold | 1.55 | 1.33 | -14.19% |
| Zinc Ox | 71.5 | 68.25 | -4.55% |

Energy Minerals

Paladin Energy's Langer Heinrich uranium mine in Namibia is moving up. Now at the 3.7 m lbs/year level after completing the second phase of expansion, it has now got the go-ahead to make that 5.2mlbs by September 2010. Drilling continues to increase resources at the mine, 40km SE of Rio Tinto's Rossing. Namibia is the world's No. 4 in uranium output. With the addition of the above, followed by Extract Resources Rossing South it could make No 2. Namibia can do nothing about the sand which covers most of the place. Yet it is breaking its dependence on diamonds, has a small population base and is well served for transport. One day soon it might break its ties with the SA Rand. Meanwhile, you see a lot of Chinese tourists around. Rio must be kicking itself that it did its dough buying Alcan at the height of the market. Yet the spot uranium price is unexciting at \$50 per pound. It needs nearer \$70 to make the new deposits attractive.

As noted last week, **Rusal**, the giant bauxite-to-aluminium producer, was in trouble in Guinea, east Africa. Likewise now in Nigeria, where the validity of its takeover of the Aluminium Smelter Company of Nigeria (ALSCON) is in question. Violations of privatisation laws are cited. In those countries it is best to keep an open mind.

Oil. Brent Crude took it on the chin to fall over \$5 (8%) to \$64.60 despite US inventories falling 4.73mbbls to 333mbbl and a weak dollar. Shares Magazine has been off the boil of late but is looking for a rally back to \$75.

RSA Power. The Republic has little alternative to coal as its energy feedstock. State-owned generator ESKOM has never been accused of being efficient or even forward-thinking. Yet it is now calling for tenders for future supplies. This broadens the base beyond its long term contracts with tied mines. This is good news for both the generator and the non-tied miners.

Gemstones

DeBeers socks it to the NGO. Still the world's largest diamond miner and marketer, DeBeers has not taken kindly to a report by South African-based Bench Marks Foundation claiming it is not playing the game in Botswana. A study of the report and DeBeers' response reveals the report as effectively cannon-fodder. Botswana's emergence as one of Africa's few economic success-stories owes most to diamonds and to its DeBeers partnership. Now that there is a rampant free market in crystalline carbon, and Botswana is necessarily diversifying, it may be numbered, but this report was ill-timed and ill-prepared.

Firestone Diamonds has ridden the recession better than most. It has maintained a production flow and thus a cashflow and is on the point of securing a major, toll treatment contract for tailings from the massive Jwaneng Mine in Botswana. Its own jewel in the crown is the BK11 project, also in Botswana, where it is financed to production. It may debt-finance its capital costs, which could be a strategic move in an improving market but with the share price still low (AIM 26.75p, down 2.25p; Hi-Lo 48p-12.5p). **Buy.**

Lesotho. Oh dear! The Harvard academics are back in business. When you live in an isolated, landlocked mountain kingdom but want to make your mark on the world, your choices are limited. There are three things you can do: Breed Angora goats and trade-brand their wool; be nice to the neighbour who surrounds you on all sides – in this case, South Africa; or find diamonds. Lesotho has been doing all three. Now the first two are relative pastimes. The third is serious. Two companies have established themselves there and appear to have survived the crisis: **Kopane Diamonds** and **Gem Diamonds**. Now a third project, Mothae, has been awarded to a hitherto unsung Canadian junior – Vancouver even – **Lucara Diamond Corp.** A ten –year lease no less, on a kimberlite. Now to the terms. The Lesotho Government gets 25%, effectively for free. Life is tough in the mining business and you will not make it long term if you give a quarter away. To soften the blow, the government says only a half will be a free carry. The balance will be paid for

out of future dividends. Oh, and there will be an 8% royalty on diamond sales values. Will these be rough or polished values? Don't miss next week's exciting episode. As we pointed out recently, this is a 1960's Harvard business plan which crippled companies and countries alike. Much has been made of modelling work on the pipe and they speak of 3 to 4 carats per hundred tonnes. They will need to shift a lot of rock to make a necklace. Don't do the arithmetic, it will only depress you.

Pointers for the week...and beyond

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|--------------------------------|---|
| Tuesday 29 September: | Petra Diamonds Ltd Final Results Sovereign Oilfield AGM US and EU Consumer Confidence |
| Wednesday 30 September: | Theo Fennell Plc Final Results Ambrian Capital Ex-dividend Tullow Oil Ex-dividend US GDP Final and Crude Oil Inventories |
| Thursday 1 September: | US and EU Unemployment Data US Natural Gas Storage |

Shares (and Currencies) to Watch

BHPB fell less than most of its stablemates last week, 3.29% to 1692p. It has the cleanest balance sheet (net debt \$5.6 billion and gearing just 12%) and will soon have to make a move. **Keep it in the Portfolio.**

Coal of Africa (AIM, ASX, JSE, 125p, up 15p or 12%. Hi-Lo 125p-27p) continues to motor on its Mozambique rail ambitions (see Watchtower). One day it will need a lot of capital but looks solid. **Stay with it.**

Strategic Natural Resources (AIM. 11p, up 0.75p. Hi-Lo 27.5p-7.5p) This developing South African coal miner held its AGM last week. In plan and in concept it can be a winner. It holds full mining rights to an uncomplicated, presently unworked coalfield in the Eastern Cape. Enough resources have been drilled off to justify a packaged, mine-mouth power station, already negotiated with engineers IPSA. It is far enough away from the major Witbank coalfield for neither coal nor imported electricity to be a threat. But IPSA will not start building until an offtake contract is agreed with generator ESKOM. The State company says there are no power shortages at present. That qualifies for the second SOTBO award this week. Last year, at the height of the boom, RSA had crippling outages (called 'load shedding'). Even the traffic lights and the cable car up Table Mountain failed. Now industry is just ticking over and unemployment is 20% plus. Yet it is all picking up again and it will probably take two years to build SNR's power plant. They don't do forward planning it seems at ESKOM. But it will come right. A company called **Atlantic Coal** thinks so (ATCP.L AIM, 0.55p; Hi-Lo 1.0p-0.05p). It has twice approached SNR but its indicative offers were rejected. This is one for the recovery. **Buy.**

Tullow Oil (FTSE100, 1175p, down 4p; Hi-Lo 1245p-417p) is strutting its stuff seriously in Africa. In Sierra Leone its offshore Venus B-1 well has opened up a new oil frontier. 700 miles away is its major Jubilee Field offshore Ghana. It is also busy in Cote d'Ivoire and Uganda, where they speak of a billion barrel resource. The shares initially gained 58p to a new high of 1245p on news of the new discovery but retreated with the oil price to 1175p. If you believe the oil price will remain frisky, you can do worse than be in Tullow.

Firestone Diamonds (see Gemstones). **Buy.**

The Watchtower

Brazil is too important in mining to be ignored. But it is reviewing its mining laws with particular reference to royalties and the tenure of exploration contracts. Watch this space.

China versus Australia, heavyweight match, seconds out, round 2. China has obviously come to the conclusion that it will not (not never) satisfy its raw materials needs domestically. Nor does it wish to be hostage to the free market, or nasty foreign firms that might gang up against it. So let's buy assets abroad. Easier said than done. The Australians don't want China's state-controlled corporations owning their companies. We saw it with Rio and now it is with rare earths, via Lynas Corporation. Australia's Foreign Investment review board (FIRB) says no more than 50% tops. Now China has a serious grip on rare earths, but Australia has major resources, too. So....

Mozambique. The availability of minerals is not in doubt. The long Indian Ocean coastline is a major attraction. But the much-needed infrastructure deters many an explorer/developer. It is a game for big boys but **Coal of Africa** is in discussions with Transnet Freight Rail (TFR) on a public-private partnership on the Maputo Rail corridor. It appears the best option. They note the port's capacity being capable of expansion from 1mtpy now, to 3 by late 2010 and 13 eventually. It would take some of the heat off RSA's Richards Bay, which has 91mtpy capacity.

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NB: There will be no Week in Mining next week as your intrepid reporter looks at the developing mining possibilities in Uganda. It will involve meeting miners and government officials in what is one of the untapped frontiers of raw materials. Stay tuned.