Pay dirt

AIM miners going into production

July 2007

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COMPANIES FEATURED

Angus & Ross	GMA Resources
Aurum Mining	Medusa Mining*
Caledon Resources	Mercator Gold*
Cambridge Mineral Resources	Serabi Mining
Coal International	ZincOx

Companies denoted with * are a research client of Edison Investment Research Limited

Junior Mining

Pay Dirt

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Value soon to be unearthed

Companies going into production deserve a rerating in the market given the positive near-term outlook for commodities and the de-risking of the investment proposition. We draw investor attention to 10 companies on the cusp of production; highlighting especially Mercator Gold, Medusa Mining and Serabi Mining as three gold miners with production online now and deserving of a rerating in the short term.

Looming production signals a rerating

Juniors who came to the market several years ago are now starting to take projects into production. Shareholders may have already been rewarded with an uplift in share prices when discoveries or acquisitions were announced, and successful production will signal a change in the business deserving of a further rerating.

Production de-risks

Exploration and development companies point to the current state of metal prices as reason for investment in whichever property they are developing. Producers, however, will actually be selling metal into this market and taking advantage of the current elevated prices. The clarification of so many unknowns and the removal of so much risk make emerging and near-term producers an attractive investment proposition.

Positive near-term outlook for commodities

Producing companies will be selling into a starved market which is paying record-high prices for metal. While the current high commodity prices are widely acknowledged to be unsustainable, we feel that the environment which spawned these prices will continue for some time and that a new long-term level for metal prices in excess of the historic range will emerge.

Cash burn turns to cash flow

Exploration and development is expensive. With no source of revenue, many juniors go back to the capital markets several times. For the most part, investors see their spending reflected on the balance sheet as an increase in the net asset value of the properties in question. On production, the value of those assets is unlocked, and revenues tend to flow in faster than capital being spent. Positive cash flow can see the company through production growth in the first few years, through the acquisition of further assets, or through further development of other projects in the pipeline.

Key investment idea: Buy at the beginning of production

We identify several ways for investors to pick their moment in this sub-sector. Companies in very early production already or targeting first production include Angus & Ross, Aurum, Caledon, Mercator and ZincOx. Miners already producing but with coming production growth not yet priced into the stock include Medusa, Serabi and Coal International. Additionally, there are miners adding shareholder value by using their new producer status as a means to pay for resource growth and regional exploration, notably GMA and Cambridge.

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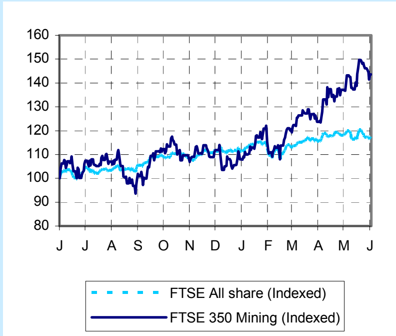
FTSE 350 mining sector performance



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Investment summary: Pay dirt

Introduction: AIM Mining has lots of explorers, but not many miners

The AIM mining sector is home to more than 200 listings. In a sector this diversified (from industrial minerals, base metals and coal to diamonds, precious metals and building materials), a real differentiator within the sector is whether or not the company can get a deposit into production, and how soon. The companies profiled in this report are all emerging or near-term producers.

The report is structured in six sections:

(1) Definition

(2) Production is the final answer

(3) Valuation

(4) Drivers: Demand, scarcity and lead time

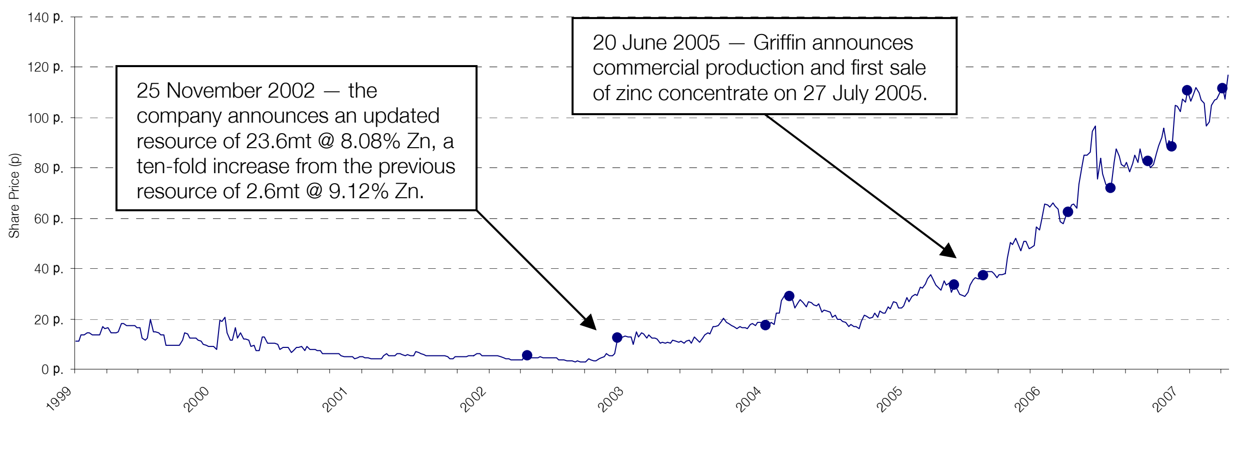
(5) Financial attributes

(6) Sensitivities

Production de-risks leading to outperformance as value is unlocked

A typical profile of a mining company suggests there are two points of significant outperformance. The first is as exploration data emerge and become more concrete, de-risking the prospect. After the initial share price surge, the evaluation and possibly engineering and construction phases take over from the much sexier discovery phase, with many discovery stocks typically losing 70% of their peak value as uncertainties about commercial production come to the fore. The key to unlocking the second phase of wealth-creation in mining is production. A mining company going into production will have finally answered their cash-burning question and begin to function as a profitable business. This is perhaps best illustrated by Griffin Mining's share price chart below, which we discuss in more detail on page 7.

Exhibit 1: Griffin Mining share price and key events January 1999 to May 2007



Source: Bloomberg, Edison Investment Research, company website

We highlight three types of company within this report:

- **Near-term producers:** emerging producers and producers with production coming in the near term have shed most of the risks associated with explorers. The primary hurdle at this stage is capital expense.
- **Producers with imminent production growth:** With production already in place, shareholder value can be increased through growth in production. This kind of growth can come in a number of ways; through the expansion of existing operations or through the exploitation of an additional resource.
- **Producers underwriting exploration:** An example of this is Alexander Mining, whose copper project in Peru will fund further exploration in South America. Another AIM listed entity following this route is Carnegie Minerals, who hope to fund development of larger projects in Africa with the cash flow from their heavy-mineral sands zircon project in Senegal and The Gambia.

Exhibit 2: Summary of companies profiled

Note: NPVs calculated based only on existing or known cash flows. See below for explanation.

	Share price (p)	Market cap (£m)	Last reported net debt /(cash) (£m)	Free float	Est. NPV (£m)	Share price upside	Already producing	Mineral exposure	Country exposure	Comment
Near-term producers										
Angus & Ross	17.5	24.4	(1.0)	98%	54.1	126%	N	Lead, zinc	Greenland	Large capex ahead to move to production, large debt facility put in place to finance capex.
Aurum	96.5	46.3	(0.3)	98%	44.2	-4%	N	Copper, gold	Kyrgyzstan	Final stages of developing production, large equity fund raising already completed to finance capex.
Caledon Resources	36.3	56.0	(5.7)	97%	163.3	202%	Y	Coal	Australia	Dealt with capex, need to demonstrate that production is stable and profitable.
Mercator	81.0	50.4	(12.4)	96%	n/a	n/a	Y	Gold	Australia	Dealt with capex, need to demonstrate that production is stable and profitable.
ZincOx	356.5	174.3	(21.5)	84%	252.2	57%	N	Zinc	US, Turkey	Large capex ahead to move to production, evaluating whether to raise debt or use their strategic partner.
Imminent production growth										
Coal International	38.3	37.3	0.9	65%	49.3	30%	Y	Coal	US	With additional capex, has the ability to produce metallurgical (coking coal) as well as steam coal.
Medusa	52.5	65.4	(1.5)	98%	144.9	124%	Y	Gold	Philippines	Expanding mine through exploration at depth and in immediate surroundings.
Serabi	45.5	50.5	(1.5)	29%	32.1	-34%	Y	Copper, gold	Brazil	Expanding mine through exploration at depth and in immediate surroundings.
Imminent production growth										
Cambridge Mineral Resources	4.6	10.1	(1.3)	98%	64.0	550%	Y	Gold	Columbia, Peru	Producing assets are funding the further acquisition of land and small producing mines in the same region.
GMA Resources	13.5	47.9	4.5	99%	41.1	-23%	N	Gold	Algeria	Use cash generated from full production later in the year to expand regionally & use existing infrastructure.

Source: Edison Investment Research

Our NPVs have valued the companies only based on known or existing cash flows, rather than potential cash flows that may arise from a positive feasibility or mining decision at a later date. To take Serabi Mining as an example, the company's Palito mine is sitting in the middle of a vast field of potential gold. Due to regulatory requirements, additions to company resources cannot be reported until the proper engineering work has been done. In all these cases, buying the existing NPV is participating in the upside potential from exploration or expansion.

Characteristics of the sector: Now is the time to be a producer

In PriceWaterhouseCooper's November 2006 survey of companies across the AIM exchange junior mining sector, shareholder's equity is up 58% between 2004 and 2005. Over the same period, companies with producing assets experienced the following uplifts:

- Revenue is up 92%.
- Operating expenses are up 63%.

- Pre-tax profits are up 1,764%.
- Cash flow is up 381%.

Companies in the sector still in exploration and/or development stages, with no producing assets, on the other hand, have experienced the following:

- Operating expenses are up 200%.
- Pre-tax losses are up 196%.
- Cash flow is up 75%.

Growth drivers: Suggest that near-term outlook remains positive

We identify the following trends that we believe contribute to growth in the sector:

(1) Growing number of metal consumers in emerging markets: Emerging markets have largely gone from net exporter to net importer of almost every mined commodity. This is particularly the case in China, where infrastructure spending is at an all-time high.

(2) Decrease in global production: Exploration spending by major mining companies was almost non-extant for the duration of the 22-year bear cycle from 1981 to 2002. New deposits simply weren't found, and as a result there are far fewer new mines coming online to replace reserves as older mines run out. Recent factors contributing to the slow pace of new mines coming into production include a lack of equipment, and the low availability of trained labour and entry-level management.

(3) The mining super cycle and high inflation rates: While inflation causes increases in the prices of everything (including metals), it has the effect of driving people to tangible investments like metals in an effort to preserve the purchasing power of their earnings. This positive feedback loop has only recently started in this cycle, and should continue for some time, as the super cycle is widely acknowledged to have only just begun.

While the above are the fundamental growth drivers for the sector, there are others as well. New high-technology uses for certain rare metals are driving prices up. Consumer demand for less-polluting automobiles is driving the demand for PGEs. Energy pricing and the looming energy production gaps have driven uranium prices parabolic over the last three years. Higher prices for oil and base metals along with general inflation have increased the basic input costs of mining.

Valuation: Change from resource valuation to earnings multiple

While exploration companies are inherently difficult to value confidently, especially before a feasibility study has been completed, companies with a producing asset have revenue and costs of sales and can be assigned a value much more easily. Margin and volume become important factors in the valuation at this stage; two comparative factors which are easier to use. A summary of our NPV calculations is shown in Exhibit 2.

Sensitivities: Production doesn't completely de-risk

(1) Commodities and currencies: Most mining companies are subject to the currency markets as they repatriate their foreign earnings. Extracting commodities also exposes them to commodity prices, which is an exposure that management needs to actively address by taking a view and reassessing that view often.

(2) **Operating risk**: The best managed mining projects will still occasionally run into problems meeting production targets. Landslides, equipment failure, and long lead time for spares are all simple things that could push production back or decrease expected output.

(3) **Country risk**: Operating and permitting in a foreign jurisdiction can pose legal and sometimes military risks.

1. Definition

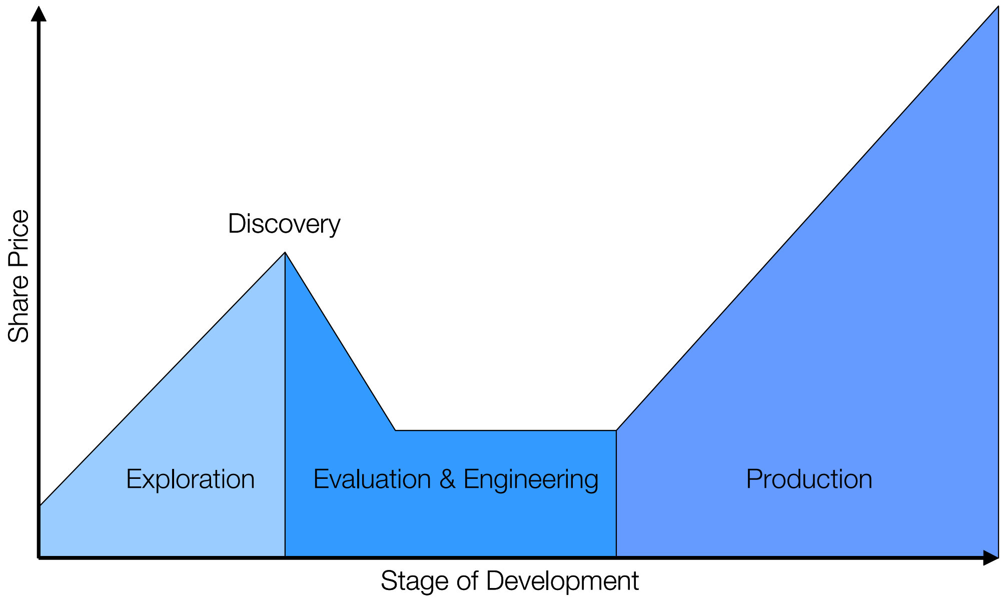
For the purposes of this report we define mining companies going into production roughly as those companies which have in the last six months, or will in the next 12 months go from cash-burning entities to cash-flow-positive entities.

2. Production is the final answer

In the current bull market for commodities, there are plenty of listed exploration and development companies. At all stages, these companies seek to advance one step further towards production. From grassroots exploration to drilling and from resource calculation to feasibility study, each successful step takes the company closer to answering the ultimate question, “Can we make money if we dig a hole here?” The oft-quoted statistic is that turning a geologic anomaly into an operating mine is at best a 1:100 chance.

Most junior exploration companies spend the early part of their listing trading on the past history of the management or on the production history of a particular geographic location. As exploration data emerge and become more concrete, the share price is as good as the last press release or bit of research. When a major discovery occurs, shareholders can enjoy a rocketing share price. From grassroots to discovery is the first major phase of investment growth for junior mining stocks.

Exhibit 3: Share price, from listing to production of a junior mining stock



Source: Edison Investment Research

After the initial euphoria of discovery wears off, almost all discovery stocks tend to lose 70% of their peak value, as the evaluation and possibly engineering and construction phases take over from the much sexier discovery phase. This can be a very frustrating time for shareholders, as the speculative “blue sky” forecasts are gone, news flow is difficult to understand, and cash flow is still negative. The key to unlocking the second phase of wealth-creation in mining is production. A mining company going into production will have finally answered their cash-burning question and begin to function as a profitable business.

2.1. Case studies: Development pays off

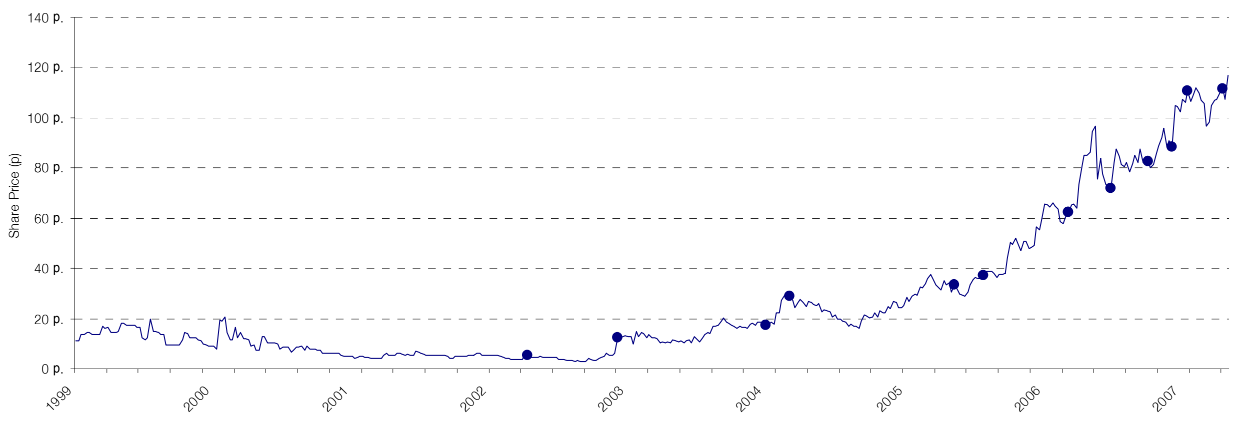
Digging money out of the ground

As we alluded earlier in the document, a single listing going through the entire exploration/development/production cycle will follow a familiar share price chart. To illustrate the value creation that occurs as a company goes into production, we have selected Griffin Mining and FNX Mining, both recent success stories of their respective exchanges.

Case study 1: Griffin Mining (GFM:LSE)

Griffin Mining operates the Caijiaying zinc mine in China. The deposit also has significant gold, silver and lead which to date the company has not been paid for in concentrate. In 2007, the company has begun producing a second concentrate containing gold, silver and lead, which will be a significant source of revenue in addition to the rich zinc ore.

Exhibit 4: Griffin Mining share price and key events January 1999 to May 2007



Source: Bloomberg, Edison Investment Research, company website

Griffin's exploration at Caijiaying gained steam during the 1998 field season, at the end of which the company announced confirmation of previous Chinese drilling results as well as demonstrating continuity in the east and south further than the previous drilled limits. In the detailed exploration and evaluation period that followed, the company's shares dropped from a high of 20p and traded on exploration news and results until early 2002, at which time the shares were priced between 3p and 4p.

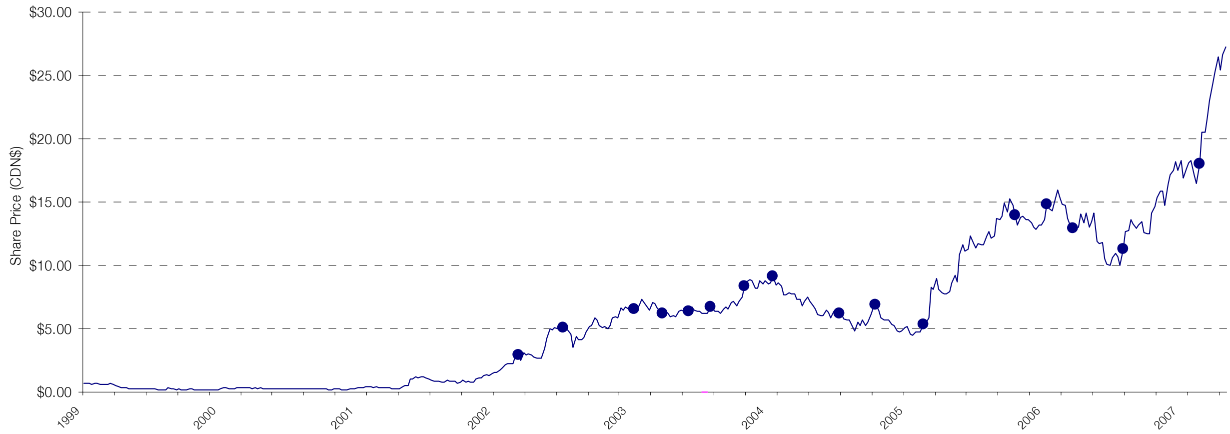
- 25 March 2002 — the company is granted a mining license for Caijiaying.
- 25 November 2002 — the company announces an updated resource of 23.6mt @ 8.08% Zn, a ten-fold increase from the previous resource of 2.6mt @ 9.12% Zn.
- 2003 — a period of exploration and evaluation.
- 8 January 2004 — the company announces that further zinc/gold exploration drilling beyond the known ore body has begun.
- 19 February 2004 — funding in place for proposed Caijiaying mine.
- 26 April 2005 — Griffin announces "dry commissioning" at Caijiaying, on time and below budget.

- 20 June 2005 — Griffin announces commercial production and first sale of zinc concentrate on 27 July 2005.
- 27 February 2006 — production increase.
- 22 June 2006 — the company announces a share buy-back.
- 30 August 2006 — record six-month profit.
- 4 December 2006 — production increase.
- 8 January 2007 — Griffin announces an increase in resource. In-situ metal 3.0mt Zn, 1.6m oz Au and 53.7m oz Ag; up from 1.2mt Zn, 0.2m oz Au and 13.9m oz Ag.
- 30 April 2007 — Griffin announces record profit of $29.5m, and maiden dividend.

Case study 2: FNX Mining (FNX:TSX)

FNX Mining operates the McCready West nickel-copper-PGE mine in Sudbury, Canada. They are also actively expanding their operations through engineering and evaluation of additional deposits in the Sudbury Basin. Commercial production from the Levack mine is planned for 2008 and the Podolsky mine, pending a positive mining decision, should be online a year later.

Exhibit 5: FNX Mining share price and key events January 1999 to May 2007



Source: Bloomberg, Edison Investment Research, company website

FNX Mining was formerly known as Fort Knox Gold Mining, and was primarily engaged in exploration for gold deposits. On 25 September 2001, the company signed a letter of intent with Inco (now CVRD Inco) to acquire a 100% interest in five properties in the Sudbury Basin, with the condition of spending CDN$30m on exploration. Subsequent to the letter of intent, FNX raised CDN$8m through the issue of shares at CDN$1.

- 27 February 2002 — FNX announces a joint-venture on the Sudbury properties with contract miner Dynatec. The terms of the JV are 75/25, with costs shared equally.
- 26 June 2002 — the company announces a bought-deal financing of $31m.
- 10 January 2003 — Inco acquires 19.9% of shares outstanding.
- 5 March 2003 — resource calculation complete for McCready West; contained metal 50.2m lbs Ni, 37.8m lbs Cu, 89,000oz PGE, 18,000oz Au with an in-situ value in excess of US$260m at the time.
- 14 May 2003 — Phase I mining begins at McCready, 200tpd growing to 800–1000tpd.

- 11 July 2003 — CDN$48m financing closed for development of Phase II mining. Two weeks later, resources were upgraded to reserve, with enough reserve in the estimate to carry on mining until 2009.
- 3 October 2003 — resource calculation complete for Levack, 4.6mt @ 2.06% Ni and 1.03% Cu (Measured + Indicated).
- 1 January 2004 — FNX declares commercial production from McCready West.
- 17 June 2004 — the company closes a CDN$20.6m private placement.
- 16 September 2004 — McCready West Mine officially opened.
- 8 February 2005 — the company announces first year operating results.
- 5 October 2005 — FNX acquires 100% interest through buy-out of JV partner Dynatec.
- 17 November 2005 — the company announces a CDN$102m bought deal financing.
- 23 February 2006 — the company announces 2005 operating results.
- 2 August 2006 — the company announces record quarterly results.
- 23 February 2007 — the company announces 2006 operating results: CDN$68.7m earnings.

3. Valuation: From resource to earnings

Production changes the nature of a listed company's business, and deserves a rerating in the markets. We have selected the profiled companies for their investment attributes and we expect that as the profiled companies report or near production, their underlying valuations will increase.

Exhibit 6: Summary valuation

Note: NPVs calculated based only on existing or known cash flows. See section 3.1 for explanation.

	Share price (p)	Market cap (£m)	Last reported net debt /(cash) (£m)	Free float	Est. NPV (£m)	Share price upside
Near-term producers						
Angus & Ross	17.5	24.4	(1.0)	98%	54.1	126%
Aurum	96.5	46.3	(0.3)	98%	44.2	-4%
Caledon Resources	36.3	56.0	(5.7)	97%	163.3	202%
Mercator	81.0	50.4	(12.4)	96%	n/a	n/a
ZincOx	356.5	174.3	(21.5)	84%	252.2	57%
Imminent production growth						
Coal International	38.3	37.3	0.9	65%	49.3	30%
Medusa	52.5	65.4	(1.5)	98%	144.9	124%
Serabi	45.5	50.5	(1.5)	29%	32.1	-34%
Imminent production growth						
Cambridge Mineral Resources	4.6	10.1	(1.3)	98%	64.0	550%
GMA Resources	13.5	47.9	4.5	99%	41.1	-23%

Source: Bloomberg/Edison Investment Research

3.1. Methodology

Sector and peer comparison

We have modelled the cash flows of the profiled companies using DCF methods. For the valuations themselves, our profiled companies have been compared to companies in the same space with similar attributes, i.e. production profile, number of years in production etc.

Our NPVs have valued the companies only based on known or existing cash flows, rather than potential cash flows that may arise from a positive feasibility or mining decision at a later date. To take Serabi Mining as an example, the company's Palito mine is sitting in the middle of a vast field of potential gold. Due to regulatory requirements, additions to company resources cannot be reported until the proper engineering work has been done. In all these cases, buying the existing NPV is participating in the upside potential from exploration or expansion.

Enterprise value per forecast production

Where comparables are available, the profiled companies are compared against their already producing peers on an EV/oz (EV/lb, EV/t) basis. The main reason for the wide variation across these valuations is the margins each company maintains. A higher margin business will often be receiving a larger multiple when using this metric.

3.2. Key assumptions

Price forecasts for 2007–2009 based on 200dma

The key assumptions in our revenue forecasts relate to metal prices and currency exchange rates. In most cases, we have used a value close to the 200-day moving average. Given the short-term nature of our forecasts and the longer-term nature of the cycle, we are confident in the following:

- Gold price of US$650/oz.
- Silver price of US$12/oz.
- Copper price of US$2.90/lb.
- Zinc price of US$1.10/lb.
- Lead price of US$0.90/lb.
- Oil price of US$60/barrel.
- US$ -> UK£ rate of 0.5051.
- US$ -> AU$ rate of 1.1750.
- US$ -> CDN$ rate of 1.0705.
- US$ -> € rate of 0.7430.

Cash flows discounted at 10%

In our Net Present Value calculations, we are discounting by 10%. We have chosen to forecast the profiled companies' near-term cash flows using more realistic (i.e. current) metal prices, and have taken the view that these prices will prevail in the mid-term, declining over the decade. To account for these high metal prices, we've used a 10% discount rate. We feel that a more aggressive discount rate is unnecessary, as the profiled companies are at a stage of development where their revenues are visible, and cost of capital is lower than might be expected for an earlier stage project. Our models express conservatism in other areas. Especially where a particular positive mining decision has yet to be made (Mercator, ZincOx, Cambridge, GMA), our NPVs have valued the companies only based on known or existing cash flows, rather than potential cash flows that may arise from a positive feasibility or mining decision at a later date.

3.3. Valuation changing business switch

Explorers are rated on resources, producers get an earnings multiple

A simple rule of thumb for valuing an exploration company at a pre-feasibility stage was pioneered by Julian Baring. The method takes the total value of the metal in the ground as of today, at today's spot price, and discounts it 90%. Numerous other more complicated methods exist, but before engineering data are available from a positive feasibility study, any valuation is the result of intuition and rule of thumb. After a completed feasibility study, shares of the company will still trade based on resources, with potential upside directed by present and historic comparables outlined by the increased amount of data provided by the feasibility study, positive or otherwise.

Moving from exploration and development to production, shares of mining companies can expect to trade on an earnings multiple.

Exhibit 7: Industry earnings multiples, LSE mining companies

	Market Cap (£m)	Div Yield	P/E
Anglo American	£42,703	1.86%	16.2
Antofagasta	£5,846	0.69%	8.6
Aquarius Platinum	£1,278	0.60%	29.7
BHP Billiton	£30,990	1.34%	16
Hochschild Mining	£1,010	0.11%	34.5
Kazakhmys	£5,797	1.55%	8.3
Lonmin	£6,108	1.27%	25.2
Randgold Resources	£738	0.47%	30.6
Rio Tinto	£36,877	1.41%	13.4
UK Coal	£761	0%	41.5
Vedanta Resources	£4,494	1.12%	9.5
Xstrata	£28,567	0.71%	13.5
Average P/E			20.6

Source: Bloomberg/Edison Investment Research

Exhibit 8: Industry earnings multiples, AIM precious metal producers

	Market Cap (£m)	Div Yield	P/E
Avocet Mining	£166	0%	25.9
Caledonia Mining Corporation	£37	0%	35.3
Celtic Resources	£85	0%	3.8
Jubilee Platinum	£102	0%	181.3
Oxus Gold	£184	0%	109.1
Peninsular Gold	£11	0%	5.3
Peter Hambro Mining	£734	0%	47.6
Average P/E			58.3

Source: Bloomberg/Edison Investment Research

Exhibit 9: Industry earnings multiples, AIM-listed producers

	Market Cap (£m)	Div Yield	P/E
ATH Resources	£79	5.63%	15.8
Bisichi Mining	£28	0.93%	13.2
Cambrian Mining	£109	0%	2.9
Conroy Diamonds	£4	0%	12.4
European Nickel	£184	0%	10.3
Gladstone Pacific Nickel	£65	0%	53.7
Griffin Mining	£209	1.39%	13.5
Karelian Diamond Resources	£4	0%	40.6
Latitude Resources	£9	0%	16.2
Mwana Africa	£185	0%	7.9
Oriel Resources	£367	0%	54.9
Peter Hambro Mining	£734	0%	47.6
Petra Diamonds	£270	0%	22.7
Sierra Leone Diamond Co	£173	0%	49.7
Tanzanite One	£66	4.43%	73.2
Titanium Resources	£187	0%	8.9
Average P/E			27.7

Source: Bloomberg/Edison Investment Research

4. Drivers: Demand, scarcity, lead time

The market for mined commodities is driven by several very basic factors. Base metals are an almost entirely supply and demand driven market. Likewise with coal, which, in its high grade form (coking coal) is a required input for steel and in its lower grade form (steam or thermal coal) is an energy-producing commodity similar to natural gas. The pricing of precious metals is only slightly more complicated, as they are an investment that stores value (hedging against inflation), and increasingly they are being consumed in high-technology uses; particularly silver and the platinum group elements (PGEs).

A mining "super cycle" has been defined broadly as a decades-long trend of rising real prices paid for commodities, driven by the urbanisation and industrialisation of a major economy. Previous super cycles have been driven by the growth of the US in the 19th century, and by post-WWII reconstruction in Europe and Japan. The current super cycle is being driven by the Chinese economy, and to a lesser extent the developing Indian economy.

Since hitting their lows in 2001/2002, metal prices have performed extremely well in the intervening six years. Speculators and market conditions have had a role to play in the shorter-term picture, but the overall trend for all mined commodities has been rising.

Exhibit 10: Rising commodity prices

	US$/lb				US$/oz		
	2001 Avg.	Change	25-Jun-07		2001 Avg.	Change	25-Jun-07
Copper	0.77	+340%	3.38	Gold	272.16	+138%	647.00
Nickel	2.70	+526%	16.89	Silver	4.35	+195%	12.85
Zinc	0.39	+310%	1.59				
Aluminium	0.69	+74%	1.20				
Lead	0.44	+167%	1.17				

Source: US Geologic Survey, Kitco.com, Edison Investment Research

4.1. Demand: 2.4 billion new consumers

The major factor in the macro environment for metals currently is the addition of India and China as net importers and consumers of metal.

Urban infrastructure for the largest mass migration in history

The rapid addition of 2.4 billion people to the world economy has precipitated a step change in the level of demand for base metals, and has created the current price environment; demand far exceeds supply. The high demand and low supply dynamic as it exists now is expected to be maintained (with fluctuations and corrections) at least as long as infrastructure projects and manufacturing in the world's two largest developing nations get up to a modern standard. Stockpiles of base metals have hit historic lows during the last five years of the bull run on commodities, despite prices having increased by a minimum of 300% over that same time period. This is not simply a case of a drop in supply, but a huge increase in demand.

Super cycle considerations: Demand growth continues

The Chinese economy has enjoyed total GDP growth over the last decade at an average of 9% annually; the manufacturing and industrial sector alone has experienced 10.3% growth annually over the same time period. According to the 11th Five Year Plan (2006–2010), the central government has set a target of 8% GDP growth annually. This would give the Chinese economy US$2.3trillion in GDP by 2010, or US$1,700 per capita. The National Development and Reform Commission points out that the projected level of growth can easily come from the existing accelerated urbanisation along with the upgrading of consumption structure from small items like washing machines, to much larger items like cars and single-family homes. By 2020, the State Council Development Research Centre predicts that Chinese GDP will reach US$4.7trillion, or US$3,200 per capita.

4.2. Scarcity and lead times

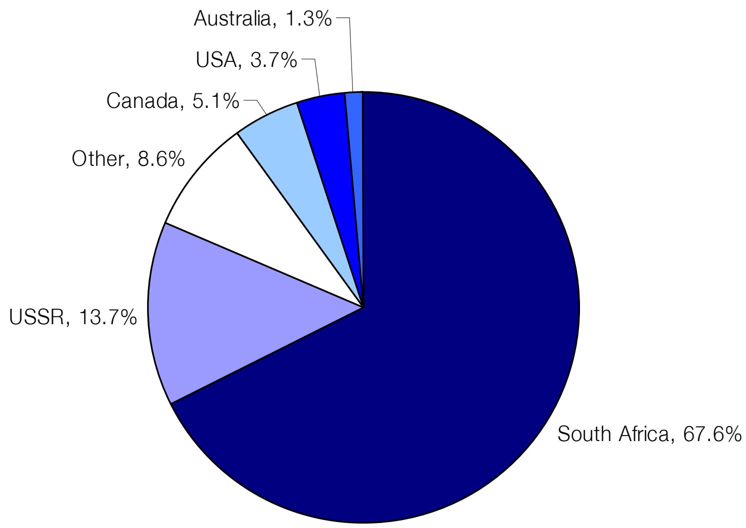
Profound under-spending on exploration and development over the 20 years by major mining companies has left a dearth of large mining projects coming online to supply the rapidly growing demand. Given that a major mine can take a decade or longer to go from discovery to production, the undersupply situation is likely to continue for at least 5–10 years. Current high metal prices are driving accelerated exploration and development, but a 20-year gap in major discoveries remains difficult for the industry to wipe away with just six years of increased spending.

World gold production on the decline

Gold production world wide has been slowly falling since 2001. In 1970, world gold production was of the order of 47.5 million ounces. The introduction of heap leaching technology in the late 1980s had the effect of bringing lower grade high tonnage deposits into the economic range, almost doubling world production over the next decade. In 2000, world gold production reached its zenith of 82.6 million ounces. Since then, world gold production has been creeping downwards, reaching 79.3 million ounces last year, despite an increase of more than 160% in the underlying gold price over the same time period.

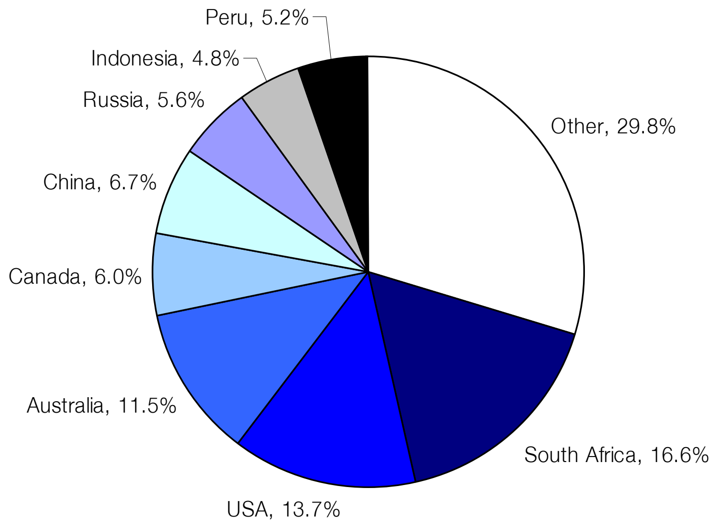
As the historic production numbers show (see Exhibits 11 to 13), South African gold production has decreased dramatically, and Chinese production is increasing, as are other lesser-known gold producing areas of the world. The production of gold is now widely diversified across the globe, and yet has still shown a decrease over the last six years of rising gold price. In order to recoup the annual production loss since 2006, at least 10 world class gold mines (+3m oz reserve) would have to come online this year, assuming no further declines in production from older mines.

Exhibit 11: World Gold Production 1970 (47.5 million ounces)



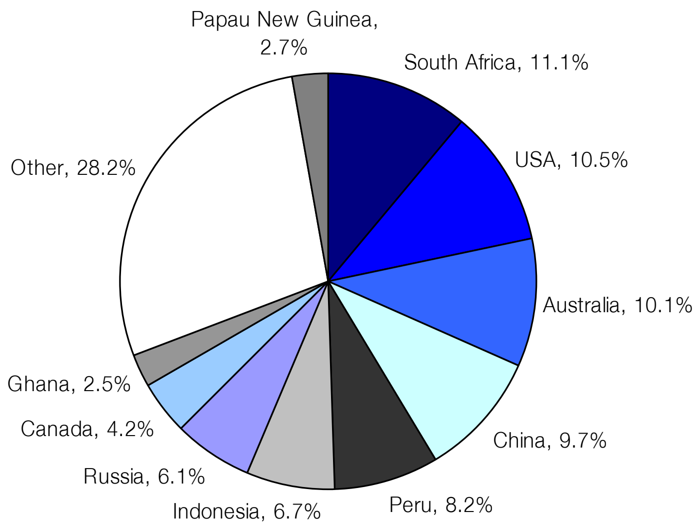
Source: GoldSheet Mining Directory

Exhibit 12: World Gold Production 2000 (82.6 million ounces)



Source: GoldSheet Mining Directory

Exhibit 13: World Gold Production 2006 (79.3 million ounces)



Source: GoldSheet Mining Directory

Lead time and input costs

The exploration/development/production cycle for new mines is long. There are a few marginal mines that have been mothballed and waiting for a price increase to re-start operations, but these are not going to have a noticeable impact on overall supply. Supply will have to be met by new, big mines or numerous small ones as well as increased production from existing ones; all of which will take time. The increased activity in this space has put pressures on suppliers of mining equipment as well, which has had the knock-on effect of further delaying the start-up of projects by denying them crushers and trucks and tyres etc. One of the most direct costs of production at a mine is related to the price of energy and fuel. In this regard, increasing oil price is having the effect of raising average costs across the entire industry, which only stokes the bull market for metals as the market simply has to pay up for the new cost of production of these necessary materials.

Base metal stocks at historic lows

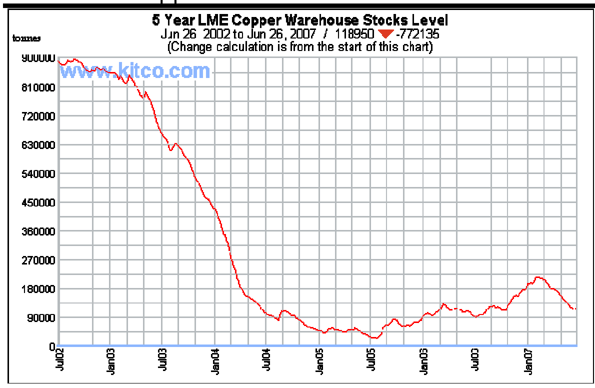
A survey of the current LME stocks of base metals shows that all base metals are at almost all-time lows (see Exhibits 14 and 15). For most of Q107, nickel stocks were lower than one day's global consumption.

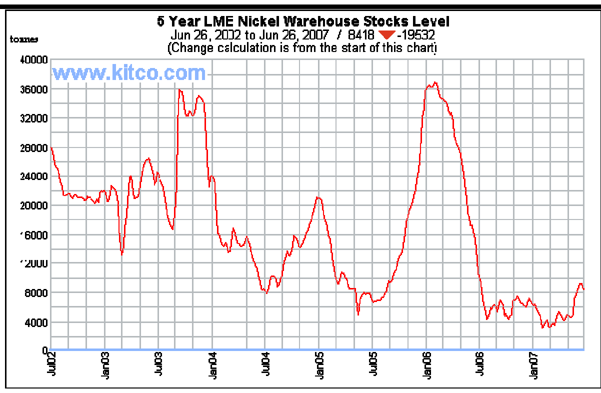
Smelting and refining bottleneck

Even if supply and demand were in relative balance, mine production coming online to take advantage of high prices and soaring demand requires smelting and refining capacity to keep up. Several research groups report that by 2009 copper smelting capacity could fall short of both demand and available mined supply. This bottleneck could have the effect of prolonging the price drivers for base metals.

Refining is an issue for the platinum group elements (PGEs) as well. Precious metal refiner Johnson Mathey has been slow to add additional platinum refinery capacity, reportedly due to the very small pool of qualified operators to draw from.

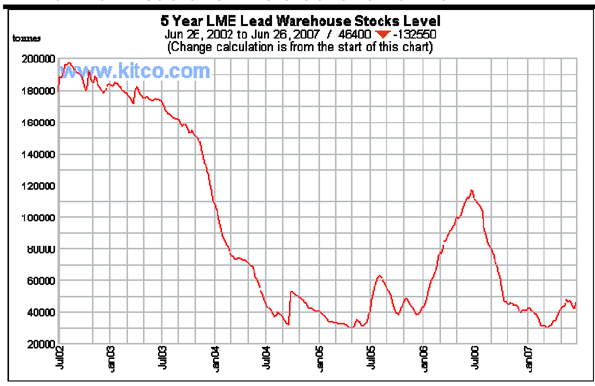
Exhibit 14: Copper and nickel stocks remain low

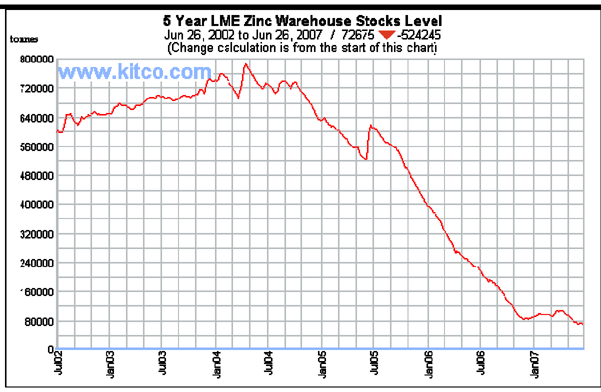




Source: Kitco.com

Exhibit 15: Lead and zinc stocks remain low





Source: Kitco.com

4.3. Conclusions: Healthy outlook

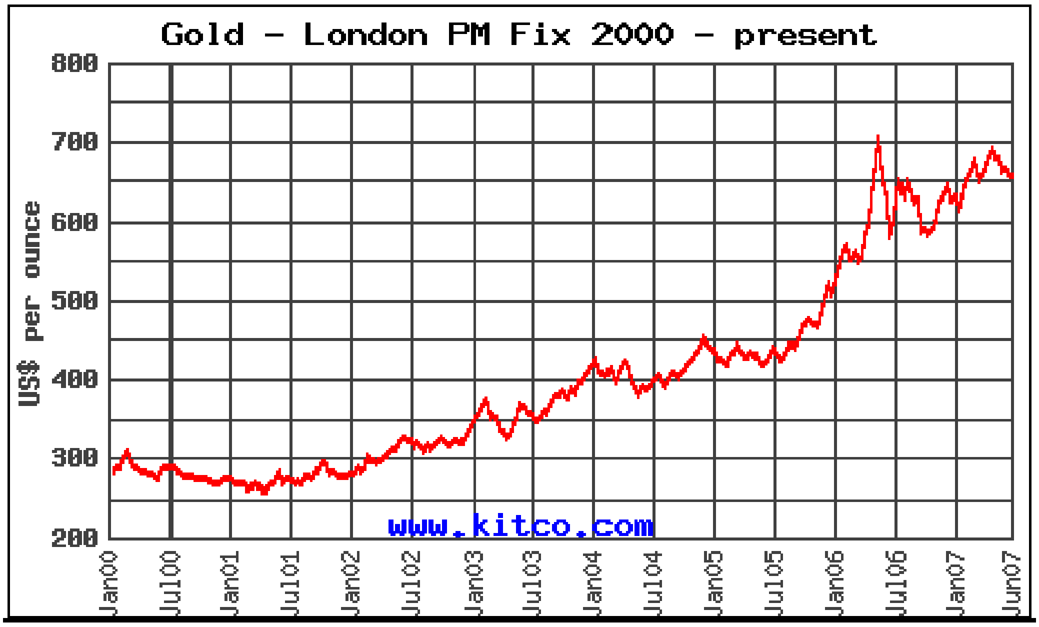
Base metals

Large-scale growth of an economy is not possible without infrastructure, and infrastructure is not possible without base metals and energy. The growth in metal consumption in China and India (and to a lesser extent Brazil and Russia) is not due to growth in Western consumption of finished goods using those metals. As such, if the US economy tumbles and American consumption is retarded, roads, bridges, manufacturing and housing will still need to be built in China and India. It is generally agreed that prices of all the base metals are currently unsustainable and will have to drift down over time. However, it is a near certainty that given the new baseline level of demand, when the price curves quit their parabolas the underlying metals will set up in a new pricing range which may eclipse the top end of the historic range.

Gold and precious metals

Despite recent corrections and a resistance to moving through the emotionally-charged $700/oz marker, gold is currently in 12-month contango and showing signs of strength. The European Central Bank has an agreement that a grand total of only 500 tonnes (16 million oz) of gold can be sold into the market by member nations in any given year, in an effort to preserve the value of gold held by all member nations. The Spanish Central Bank sold more than 80 tonnes (2.6 million oz) of gold into the market between April and May 2007, representing nearly 25% of their national treasury. The gold market was able to maintain sideways-moving spot prices the entire time despite the glut of gold coming into the market. The Swiss Central Bank announced in early June that it plans to sell 250 tonnes (8 million oz) of gold into the market over the next 24 months. The spot price of gold only lost 3 dollars on the day of the news, and had more than recovered the losses the following day; while the three-month future moved even less. We expect that as the Swiss selling unfolds, the spot prices will once again simply move sideways. As with silver and platinum, decreasing mined supply of gold, coupled with demand from investors and ETFs is helping to maintain high upward pressure on prices in an environment with some downward price pressures (like treasury selling). World political uncertainty and US dollar fears are also playing a big role in propping up the gold price as investors and cash-rich oil-producing countries seek shelter from the dollar.

Exhibit 16: Gold price 2000–2007



Source: Kitco.com

In the coming decade, the consensus view is that China will become the largest producer of gold in the world. It is our view that China could shortly become the world's largest *consumer* of gold as well. Similar to India, the population of China is interested in tangible savings in the form of precious metals. An emerging trend in the country is the purchase by consumers of small gold bars, available from banks and department stores, rather than keeping any/all savings in the bank. Especially attractive for workers or landlords who are paid in cash, this transaction is anonymous and tax free.

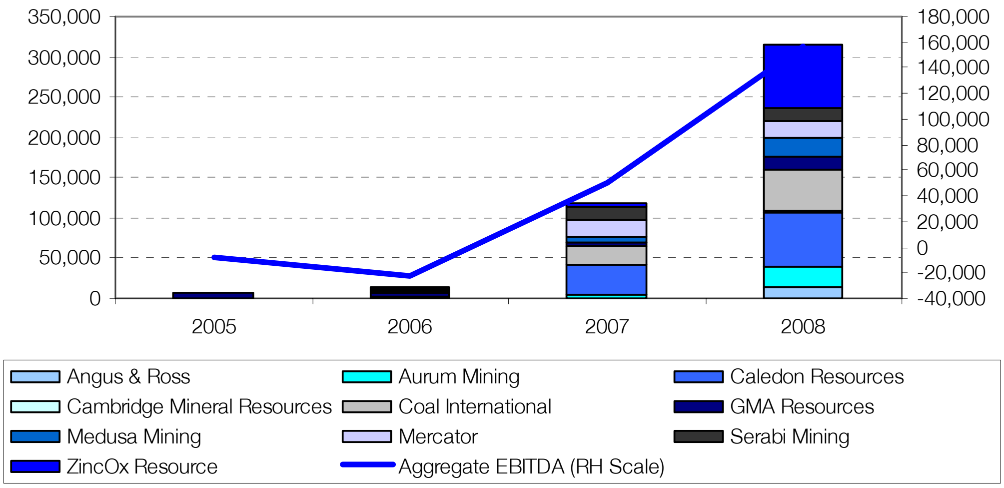
China's national treasury holds a position in US Treasury Bonds which currently stands in excess of US$1trillion. Officials have said that they wish to reduce their holdings in dollars, and have also said they wish to increase their gold holdings. Without upsetting either the market for dollars or the market for gold, the treasury could offer foreign mining companies dollars for their Chinese gold production. This would help the miner repatriate his profit dollars with less red tape and fewer currency exchange spreads, while simultaneously reducing China's dollar holdings and increasing their gold position — all without engaging in trading in the open market.

China's effect on net global gold production/consumption could be limited by how much gold actually gets out of the country and onto the market; especially given the demand pressure the Chinese economy is capable of exerting.

5. Financial attributes: Simple balance sheets

The profiled companies, and indeed the exploration and development sector at large, have simple books. The profiled companies are or will be booking their first revenues and their first tax charges, and will begin to have stock on hand for the first time.

Exhibit 17: Aggregate revenue by company, aggregate EBITDA moving into positive territory



Source: Company accounts, Edison Investment Research

For the purposes of the profiled companies, and considering the theme of this piece, we concluded that the following factors were important to investors:

- Capital expenditure.
- Operating margin.
- Resources.

5.1. Capex

Companies going into production will most likely have to spend a great deal in order to achieve commercial production. In the current metal price environment, companies should have little trouble raising the capital necessary to bring a good project into production.

Debt or equity?

The question of where this capital comes from boils down to debt or equity. Raising equity is subject to the current share price and it dilutes the current shareholders, but has the distinct benefit of not bearing interest or giving any excess powers of decision to non-shareholders like banks. Debt financing can come at a heavy interest cost and will often require that some production be forward sold, in order to ensure that the lender is guaranteed to get loan payments on time. In current market conditions, forward selling is not crippling and may even be attractive to some companies. Investors looking for leverage to increasing prices of a particular commodity will find a producer with hedged production less attractive.

Tangible or intangible?

Capital expenditure for construction, equipment, land etc. is an addition to the tangible asset line. Exploration expenses are more complicated. In our models, all forecast capex for exploration and drilling is booked as “Intangible” on the balance sheet until the company has found something that would give the spending value. For example: Company A spends US$1m to drill five exploration holes. We book those holes under intangible until the company informs the market of the materiality of those holes. If the first two holes to have results released show no mineralisation, we leave the full amount under intangible. If subsequent holes encounter mineralisation, then the full amount of the exploration spend moves to "Tangible" as information has now been added to the property in the form of where mineralisation can and cannot be found on the property.

5.2. Operating margins

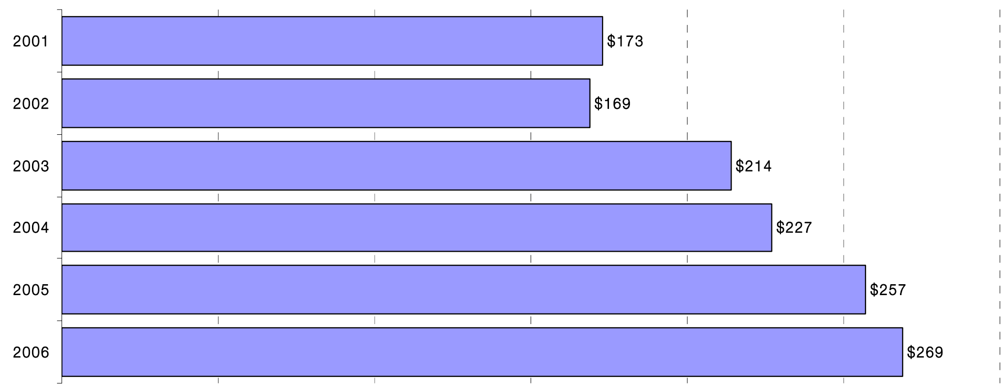
Average cash costs

Gold producers report average cash costs per ounce as a comparative metric. Cash costs speak to the margin inherent in the business and lower cost producers are seen to be lower risk. On the other hand, higher gold prices have a more significant effect on more marginal cash cost producers, as it makes an impact on the bottom line when gold price moves significantly above their cost.

Average cash costs have been increasing over the last few years. Although it is harder to calculate and compare base metal producers on a consistent basis, gold miners' cash costs are a good indicator that costs are going up all over the industry. Rising costs mean that there are more input dollars required for each output unit of metal, and as such it underscores our belief that higher prices are here to stay for the longer term.

Exhibit 18: Average cash cost for HUI & XAU component gold producers

Note: HUI and XAU are indices tracking the world's listed gold producers.



Source: Zeal LLC, GFMS Ltd

This chart shows an interesting correlation to oil prices, which were below $40/barrel in 2001 and 2002, and have yet to drop below that mark since.

Offtake agreements

Like several other common mineral products (gypsum, zircon), coal is sold via offtake agreement to the various consumers around the world. There is no spot market for coal, so each company must negotiate the best price and deliver the quality of coal they are contracted to. With these agreements in place (usually for several years), the company is left to preserve their operating margin by maintaining and/or reducing costs. For a coal miner with a tight margin, any cost overruns or production delays can compound to produce a loss for the quarter, because the miner must deliver or be in default of the contract.

5.3. Summary of resources

Regulatory definitions

Both the Australian Stock Exchange and the Toronto Stock Exchange have adopted strict regulatory guidelines for the reporting of mineral reserves and resources. The Australian standard is called JORC, and the Canadian standard is called National Instrument 43-101 (NI43-101). Other exchanges have adopted these standards as roughly interchangeable, with JORC reporting being much more commonly used among companies listed on the AIM exchange. Both standards have agreed to the same definitions.

National Instrument 43-101

> "Mineral Resource
>
> A Mineral Resource is a concentration or occurrence of diamonds, natural solid inorganic material, or natural solid fossilized organic material including base and precious metals, coal, and industrial minerals in or on the Earth's crust in such form and quantity and of such a grade or quality that it has reasonable prospects for economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence and knowledge.
>
> Mineral Reserve
>
> A Mineral Reserve is the economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility Study. This Study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified. A Mineral Reserve includes diluting materials and allowances for losses that may occur when the material is mined."

6. Sensitivities: Timing is everything

As we are confident in our key assumptions for the forecast period, our valuations are most sensitive to the timelines companies need to maintain in order to achieve producer status within the review period. Companies coming to the market with production much later than forecast may not enjoy the same pricing environment, and may already have been punished in the market for the delay. Conversely, our NPVs and revenue forecasts are conservative and do not take into account any upside from exploration results, or expansion in cash flow.

Commodities and currencies

Most mining companies operate in a country other than the one in which they are domiciled, and as such are subject to the currency markets as they repatriate their foreign earnings. Extracting commodities also exposes mining companies to commodity prices which, while it is the primary reason for investing in a mining company, is also an exposure that management needs to actively address by taking a view and reassessing that view often.

Royal Oak Mines Inc operated numerous gold and base metal mines in Canada between 1990 and 1999. In 1996, the company reported nearly US$600m in assets, revenue of US$187m, and a loss of US$4.4m. Already over-extended with debt responsibilities from financing the Kemess Mine, low gold prices in 1997–1998 caused Royal Oak to declare bankrupcy in April 1999.

Operating risk

The best managed mining projects will still occasionally run into problems meeting production targets. Landslides, equipment failure, and long lead time for spares are all simple things that could push production back or cause a decrease from the expected output.

Cameco Corp (the world's number one uranium producer) has had several operational delays at their Cigar Lake project. Originally slated to begin production in Q207, the company announced in April 2006 that underground construction delays and cost overruns had pushed production back six months. Then in October 2006, a rock failure during excavation of development drifts flooded the main shaft and all underground infrastructure with water from the lake above. By spending an estimated US$46m, Cameco now hopes to have the mine in operation in 2010.

Country risk

Operating and permitting in a foreign jurisdiction can pose legal and sometimes military risks. Governments and ministers can and often do change over the course of the operating life of a mine. Ongoing relations with and continual input from local authorities is key to mitigating country-related risks.

On 10 August 2004, Nevsun Resources Ltd announced some impressive drill results from their Bisha advanced gold exploration property in Eritrea. On 3 September 2004, the company announced the receipt of a letter from the Minister of Energy and Mines instructing them to halt all mineral prospecting and exploration in Eritrea until further notice. Work on the property was halted until 21 January 2005, after a positive meeting and subsequent agreement with the minister took place earlier in the month.

Appendix: Company profiles

Edison investment research

Angus & Ross

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
02/05	0.0	(1.1)	(1.8)	0.0	N/A	N/A
02/06	0.0	(2.2)	(2.6)	0.0	N/A	N/A
02/07e	0.0	(5.4)	(4.4)	0.0	N/A	N/A
02/08e	14.4	4.2	2.6	0.0	7.7	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Former producing asset

Angus & Ross is bringing the Black Angel lead-zinc mine in Greenland back into production. The company has a debt facility in place to pay for the capital expenditure required, and has secured contractors for the installation of the mine access cable car and a conveyance system to move the ore from the mine to the concentrator.

Production from an existing underground mine

The Black Angel mine was opened by Cominco in 1973 with a resource estimate of 3mt. Over 17 years of operation, the mine produced in excess of 12mt at an average grade of 12% Zn and 4% Pb. When the mine closed in 1990, the operators left behind 3mt of rich ore in mine pillars. Angus & Ross have recently secured a $30m debt facility to bring the project into production. Phase 1 should see the mine produce concentrates containing 87m lbs of zinc and 25m lbs of lead every year over a five-year period.

Expansion and footprint exploration

From old mine records it can be seen that mineralisation grading less than 8%Zn was left behind. As such, the company is confident in finding additional profitable resources within the halo of the mine itself. Mineralisation and additional resources of lead and zinc have been identified by exploration in the area surrounding the mine as well, and the company hopes expansion of these resources will extend the life of the project.

Sensitivities: Commodities and weather

The Black Angel mine will be sensitive to the underlying zinc and lead prices as well as energy and oil pricing. The mine does have a significant margin, so should be able to deal with a downturn in the base metal market. As the mine is in Greenland, shipping of concentrates will be subject to when the shipping lanes are ice-free.

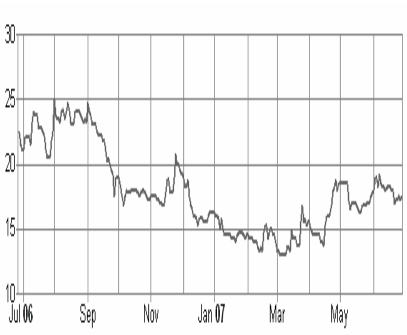
Valuation: Under-rated past producer

Commercial production at Black Angel is due in late 2008. Even though the project is going to be debt financed, at current prices shares of the company are a steal.

Price	17.5p
Market Cap	£24m

Note: Priced 28 June 2007

Share price graph



Share details

Code	AGU
Listing	AIM
Shares in issue	139.2m

Price

52 week	High	Low
	25p	13p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	0.2
Net cash (£m)	5.4

**as at 28 February 2006*

Business

Angus & Ross are re-developing the Black Angel lead-zinc mine in Greenland.

Valuation

	2006	2007e	2008e
P/E relative	N/A	46%	5%
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	2.9
ROE	N/A	17%	185%

Geography based on revenues

UK	Europe	US	Other
0%	100%	0%	0%

Analyst

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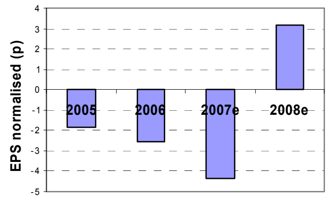
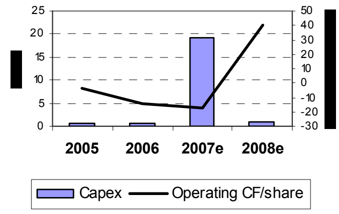
Angus & Ross: Financials and performance indicators

Year to Feb	2005	2006	2007e	2008e
Profit & Loss				
Turnover	0	0	0	14,361
(% change)	N/A	N/A	N/A	N/A
EBITDA	(619)	(1,990)	(2,000)	6,906
(% margin)	N/A	N/A	N/A	48%
(% change)	N/A	222%	1%	N/A
EBIT pre GW and except's.	(1,155)	(2,247)	(4,604)	4,302
(% margin)	N/A	N/A	N/A	30%
Net financial items	32	72	(771)	(116)
Other	0	0	0	0
Pre-tax profit (norm'd)	(1,123)	(2,175)	(5,375)	4,186
Tax	0	0	0	(1,256)
Net Income	(1,123)	(2,175)	(5,375)	2,930
EPS (norm'd and fd)	(1.8)	(2.6)	(4.4)	2.3
(% change)	N/A	39%	70%	N/A
Balance Sheet				
Fixed Assets	764	653	19,289	16,685
Current Assets	1,952	1,188	200	1,565
Current Liabilities	(127)	(250)	(19,539)	(17,232)
Long term Liabilities	(153)	(118)	(100)	0
Shareholders Equity	2,435	1,474	(150)	1,019
Cash Flow				
Cash flow from operations	(192)	(1,094)	(2,020)	5,650
Capex	(540)	(725)	(19,289)	(1,000)
Net debt(cash)	(1,863)	(1,007)	19,289	16,011

EPS growth



Capex/Operating CF per share



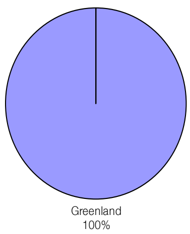
Catalysts/recent news flow

Date	Event
30/04/07	Uranium JV
15/03/07	Black Angel update

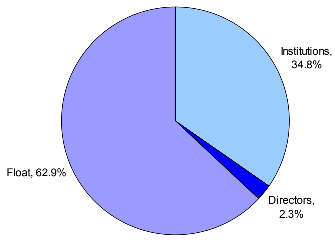
Commodity

Zn, Pb

Geographic breakdown (forecast)



Freefloat



Edison investment research

Aurum Mining

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
03/05	0.0	(0.3)	(4.2)	0.0	N/A	N/A
03/06	0.0	(1.0)	(10.5)	0.0	N/A	N/A
03/07e	5.1	1.9	15.5	0.0	6.2	N/A
03/08e	25.1	16.4	34.1	0.0	2.3	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Construction underway

Aurum Mining is in the late stages of construction at its Andash gold and copper mine in the Kyrgyz Republic. Production is expected to begin in late 2007, reaching full production in 2009. Expansion and growth could come from several additional known prospects in the area. Having raised £30m in the markets in February, the company is funded through the start of production.

Production coming online, and increasing

The Andash mine is scheduled to come into production in late 2007. According to the mining schedule, production in 2008 will be 8,000oz of gold and 1.9m lbs of copper. Annualised production from the mine, after a two-year ramp-up, is planned at roughly 100,000–150,000oz of gold equivalent.

Growth on site

Zone 1 of Aurum's project area hosts a JORC reserve in excess of 1.1m oz of gold equivalent. The Andash mine is on zone 1 of a 3 zone sequence of mineralisation. Zones 2 and 3 have historic Soviet resources requiring further drilling to bring them up to current regulatory standards. In addition, two other target areas within trucking distance of the Andash site, Tokhtonysay and Nakhodka, are under evaluation. The company plans to expand their resources and reserves at these four other mineralised areas with further drilling once the Andash mine is up and running.

Sensitivities: Commodities and the FSU

As a copper-gold deposit, Andash has some dampening of the effects of commodity pricing. Even so, oil and energy prices in general will affect the costs of production. The company has good relations with the government of Kyrgyzstan which it hopes will mitigate any negative effects associated with being located in the FSU.

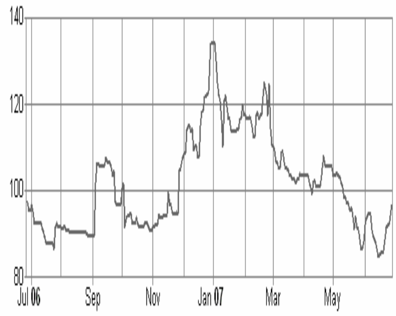
Valuation: The blinds are going up

As the Andash mine nears commercial productions, we expect a significant rerating of the shares. Production of gold and copper into near record-high metal prices provides even more upside for earlier investors.

Price	96.5p
Market Cap	£46m

Note: Priced 28 June 2007

Share price graph



Share details

Code	AUR
Listing	AIM
Shares in issue	48.0m

Price

	High	Low
52 week	134.5p	84.5p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	21.2
Net cash (£m)	1.0

**as at 30 September 2006*

Business

Aurum is in the final stages of construction of their Andash copper-gold mine in Kyrgyzstan.

Valuation

	2006	2007e	2008e
P/E relative	N/A	38%	20%
P/CF	N/A	2.7	2.7
EV/Sales	N/A	0.0	0.7
ROE	N/A	6%	35%

Geography based on revenues

UK	Europe	US	Other
0%	0%	0%	100%

Analyst

Mike Wood 020 7190 1770

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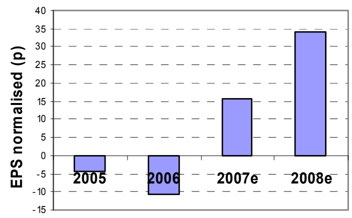
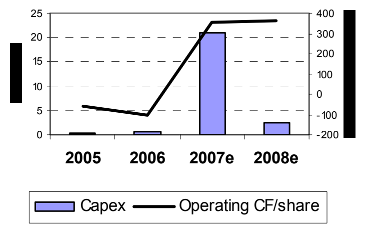
Aurum Mining: Financials and performance indicators

Year end Mar	2005	2006	2007e	2008e
Profit & Loss				
Turnover	0	0	5,144	25,077
(% change)	N/A	N/A	N/A	388%
EBITDA	(387)	(942)	4,762	17,783
(% margin)	N/A	N/A	93%	71%
(% change)	N/A	N/A	N/A	273%
EBIT pre GW and except's.	(389)	(1,006)	1,782	14,773
(% margin)	N/A	N/A	35%	59%
Net financial items	45	7	140	1,599
Other	0	0	0	0
Pre-tax profit (norm'd)	(344)	(999)	1,922	16,372
Tax	0	0	0	(1,256)
Net Income	(344)	(999)	1,922	15,116
EPS (norm'd and fd)	(4.2)	(10.5)	15.5	34.1
(% change)	N/A	N/A	N/A	121%
Balance Sheet				
Fixed Assets	1,008	1,568	22,573	19,964
Current Assets	1,209	417	12,449	29,416
Current Liabilities	(281)	(339)	(463)	(2,257)
Long term Liabilities	0	(643)	0	0
Shareholders Equity	1,936	1,003	34,559	47,123
Cash Flow				
Cash flow from operations	(487)	(953)	4,427	17,383
Capex	(235)	(624)	(21,005)	(2,610)
Net debt(cash)	(944)	(321)	(11,883)	(29,855)

EPS growth



Capex/Operating CF per share



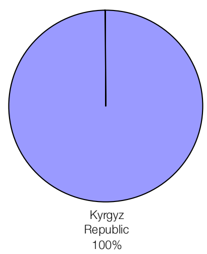
Catalysts/recent newsflow

Date	Event
26/02/07	£30m (gross) fundraising
30/05/07	Andash mine update
27/06/07	Andash capex update

Commodity

Au, Cu

Geographic breakdown (forecast)



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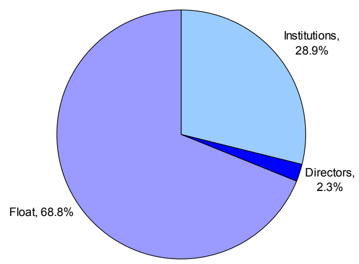
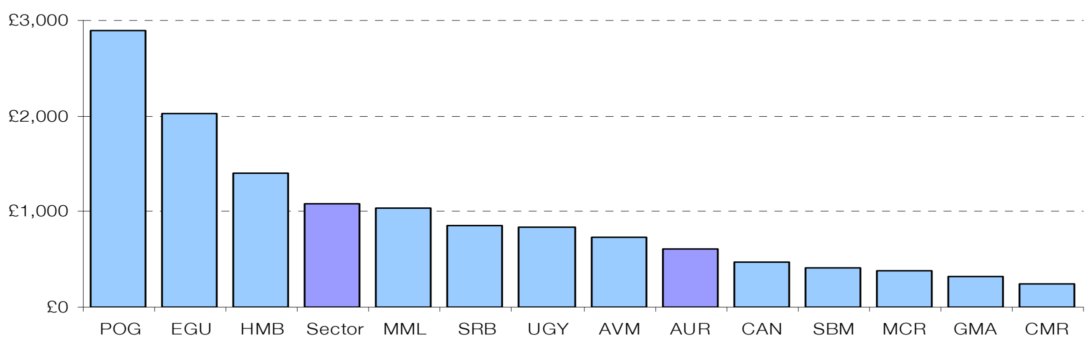


Peer comparison — Enterprise value per production ounce 2008e



Caledon Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	0.0	3.3	(4.6)	0.0	N/A	N/A
12/06	0.0	(1.7)	(6.4)	0.0	N/A	N/A
12/07e	36.3	13.6	6.0	0.0	6.0	N/A
12/08e	67.9	27.2	11.8	0.0	3.1	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Australian coking coal

Caledon Resources came to market as a gold explorer but will finish 2007 as a cash flow positive producer of metalurgical coal, having divested themselves of their gold assets for US$19m (a 300% gain). In the second half of 2006, Caledon were active in acquiring several coal projects. Xstrata sold the Cook coal mine and wash plant to Caledon for US$34.2m. The Cook mine is located in the Bowen Basin, which supplies about 50% of the world's sea-borne coking coal.

First coal shipments are already away

On 2 May 2007, Caledon announced that the first rail shipment of coal had been shipped from the Cook mine to the Port of Gladstone on the Queensland coast. The company will stockpile the coal there while awaiting sea shipment. As part of the acquisition agreement, Xstrata will market and sell 100% of coal production from Cook for two years. Caledon plans to produce 900,000t of coal in the first year of operation, ramping up to 1.5mt and 1.8mt over the subsequent two years.

Resource to increase with exploration

In addition to the Cook mine's existing resources of 126mt, Caledon is confident in their ability to expand their coal production through brownfields exploration at their Minyango coal deposit. Minyango is a known coal deposit which Caledon feels can be brought into production (subject to a feasibility study) relatively quickly after a compliant resource is calculated later this year.

Sensitivities: Steel

The manufacture of one tonne of steel requires 0.6 tonnes of coking coal. While steel demand is high, the demand from smelters for high-quality coal should remain high.

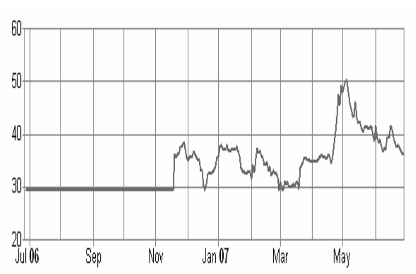
Valuation: New mid-tier coking coal producer

Coking coal is a market dominated by the majors, Rio Tinto, BHP, Anglo and Xstrata. The major companies have already acquired every mid-tier producer of coke, leaving Caledon alone as a mid-tier producer. As the first cash flows hit the books, we expect Caledon will get a rerating in the market befitting their producer status.

Price	36.25p
Market Cap	£56m

Note: Priced 28 June 2007

Share price graph



Share details

Code	CDN
Listing	AIM
Shares in issue	154.4m

Price

52 week	High	Low
	50p	29.25p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	5.6
Net cash (£m)	11.2

**as at 30 August 2006*

Business

Caledon Resources has just begun producing metallurgical (coking) coal in Australia's Bowen Basin.

Valuation

	2006	2007e	2008e
P/E relative	N/A	36%	37%
P/CF	N/A	19.2	1.9
EV/Sales	N/A	1.3	0.3
ROE	N/A	17%	24%

Geography based on revenues

UK	Europe	US	Other
0%	0%	0%	100%

Analyst
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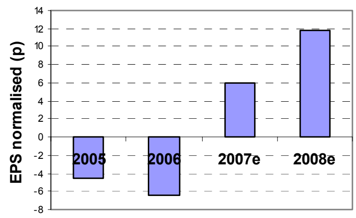
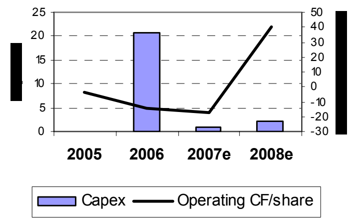
Caledon Resources: Financials and performance indicators

Year to Dec	2005	2006	2007e	2008e
Profit & Loss				
Turnover	0	0	36,259	67,986
(% change)	N/A	N/A	N/A	N/A
EBITDA	(2,205)	(4,420)	14,646	27,604
(% margin)	N/A	N/A	N/A	41%
(% change)	N/A	100%	-431%	N/A
EBIT pre GW and except's.	(2,239)	(4,451)	13,232	26,217
(% margin)	N/A	N/A	N/A	39%
Net financial items	37	230	320	960
Other	5486	2531	0	0
Pre-tax profit (norm'd)	3,284	(1,690)	13,552	27,177
Tax	(944)	(316)	(4,608)	(4,608)
Net Income	2,340	(2,006)	8,944	22,570
EPS (norm'd and fd)	(4.6)	(6.4)	6.0	11.8
(% change)	N/A	39%	-194%	N/A
Balance Sheet				
Fixed Assets	4,051	42,823	42,408	43,022
Current Assets	7,928	13,789	19,377	48,554
Current Liabilities	(1,468)	(21,538)	(13,142)	(20,423)
Long term Liabilities	(770)	(1,153)	(1,151)	(1,151)
Shareholders Equity	9,741	33,921	47,493	70,002
Cash Flow				
Cash flow from operations	(2,204)	(3,068)	2,814	29,597
Capex	(11)	(20,784)	(1,000)	(2,000)
Net debt(cash)	(7,812)	(5,692)	(7,826)	(31,715)

EPS growth



Capex/Operating CF per share



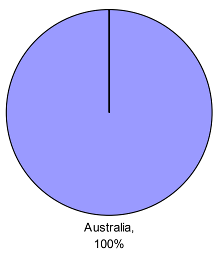
Catalysts/Recent news flow

Date	Event
25/06/07	2006 results
04/06/07	Convertible note placing
02/05/07	Cook mine update

Commodity

Coal

Geographic breakdown



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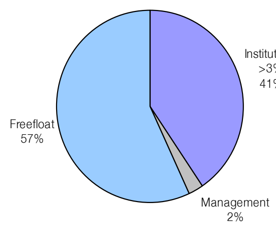


Edison investment research

Cambridge Mineral Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	0.0	(1.4)	(1.0)	0.0	N/A	N/A
12/06	0.0	(0.9)	(0.5)	0.0	N/A	N/A
12/07e	2.4	1.9	0.8	0.0	5.8	N/A
12/08e	11.2	9.0	2.9	0.0	1.6	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Production & pipeline

Cambridge have an attractive portfolio of producing and near-production gold assets in Colombia. Silver production in Peru is set to more than double for 2008. Further down the pipeline, the company has projects in Bulgaria and an impressive land holding in Spain's Iberian Pyrite Belt.

Producing gold assets with big growth potential

Cambridge's producing Colombian operations are located in the Frontino Gold Belt. Cambridge has put together a portfolio of producing gold assets by buying surface and mining rights from artisinal operators. Bringing modern technology to these operations puts the company in a good position for growth. Alone, the change to cyanide processing from the artisinal mercury extraction doubles gold recovery. Additional potential comes from the cash flows of the producing mines providing capital for exploration below and surrounding known deposits and on a regional level.

Other assets

In Peru, the company owns the Rasuhuilca silver deposit formerly developed by Cominco (now Teck Cominco). The mine has an attractive payback time and required very little capital to get into production. The properties in Spain and Bulgaria may warrant a joint venture or perhaps an additional listing.

Sensitivities: Low cost producer, capital expenses coming

Cambridge's gold production comes at an average cash cost of $127/oz, making it an extremely low-cost producer with good margins. At present, the company is not producing a great deal of gold, expecting to produce about 26,000oz for 2008. The combined development costs portfolio-wide may exceed the company's cash flow over the next several years, and could necessitate financings to get into production.

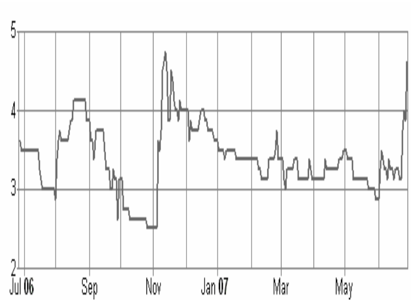
Valuation: Producer at an explorer's price

Cambridge's production is low cost and their exploration is advanced and prospective. Given the forecast revenue increase from 2007 to 2008, the shares look cheap in today's market.

Price	4.62p
Market Cap	£10m

Note: Priced 28 June 2007

Share price graph



Share details

Code	CMR
Listing	AIM
Shares in issue	217.3m

Price

	High	Low
52 week	5.13p	2.5p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	0.5
Net cash (£m)	0.6

**as at 31 December 2006*

Business

Cambridge Mineral Resources has producing gold & silver assets in Colombia and Peru, and a portfolio of exploration projects elsewhere in the world.

Valuation

	2006	2007e	2008e
P/E relative	N/A	34%	11%
P/CF	N/A	6.3	2.0
EV/Sales	N/A	3.6	0.8
ROE	N/A	18%	56%

Geography based on revenues

UK	Europe	US	Other
0%	0%	0%	100%

Analyst
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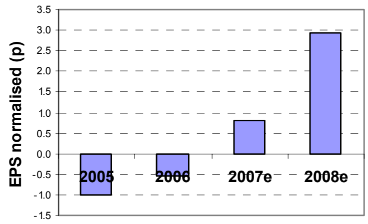
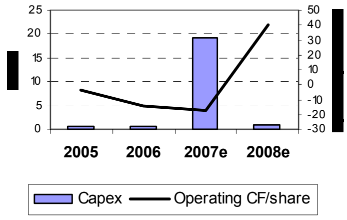
Cambridge Mineral Res.: Financials and performance indicators

Year end Dec	2005	2006	2007e	2008e
Profit & Loss				
Turnover	0	0	2,429	11,174
(% change)	N/A	N/A	N/A	N/A
EBITDA	(1,473)	(901)	2,051	8,922
(% margin)	N/A	N/A	84%	80%
(% change)	N/A	N/A	-328%	335%
EBIT pre GW and except's.	(1,503)	(901)	1,868	8,767
(% margin)	N/A	N/A	77%	78%
Net financial items	71	27	54	270
Other	0	0	0	0
Pre-tax profit (norm'd)	(1,432)	(874)	1,922	9,037
Tax	0	0	(195)	(2,630)
Net Income	(1,432)	(874)	1,727	6,407
EPS (norm'd and fd)	(1.0)	(0.5)	0.8	2.9
(% change)	N/A	N/A	N/A	N/A
Balance Sheet				
Fixed Assets	5,206	6,843	8,316	8,898
Current Assets	1,930	1,417	2,266	7,022
Current Liabilities	(288)	(389)	(1,208)	(4,960)
Long term Liabilities	0	0	0	0
Shareholders Equity	6,848	7,870	9,374	10,960
Cash Flow				
Cash flow from operations	(1,723)	(858)	1,574	5,006
Capex	(449)	(1,768)	(1,217)	(500)
Net debt(cash)	(1,287)	(618)	(1,029)	(5,609)

EPS growth



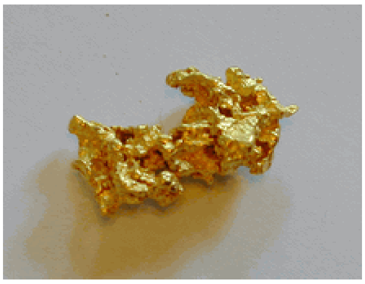
Capex/Operating CF per share



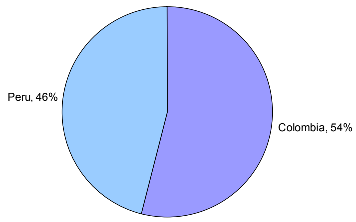
Catalysts

Date	Event
28/06/07	Drilling update
15/06/07	Full year results

Commodity: Gold



Geographic breakdown



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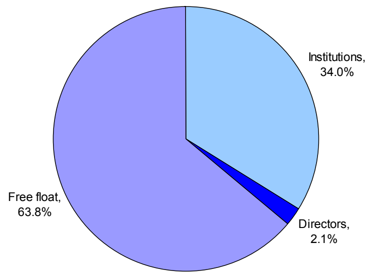
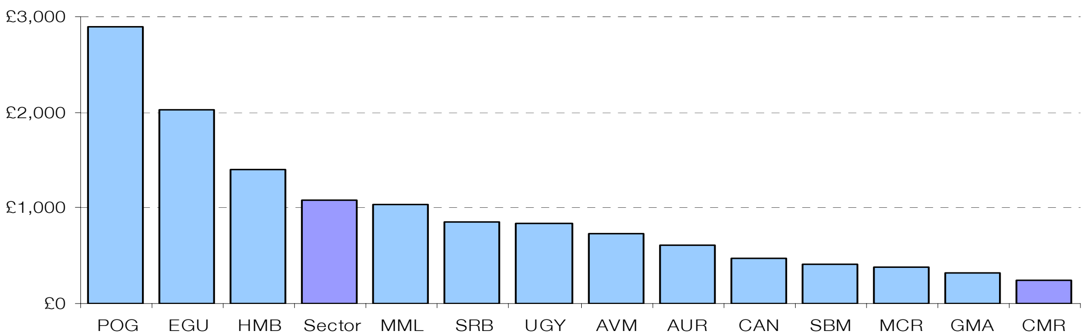


Peer comparison — Enterprise value per production ounce 2008e



Edison investment research

Coal International

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
06/05	0.0	0.1	1.2	0.0	31.9	N/A
06/06	2.9	(3.2)	(6.5)	0.0	N/A	N/A
06/07e	24.4	1.2	1.1	0.0	34.8	N/A
06/08e	50.6	5.4	4.8	0.0	7.9	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: West Virginia coal

Coal International, through two wholly-owned subsidiaries, has two large land holdings in West Virginia with operating and near-term operating assets. The company is already producing coal, and has significant production increases and more valuable coking coal production coming in 2008.

Good assets, growing production

The Gauley Eagle operation has two underground workings, two surface mining areas, a surface disposal facility and a 900ton per hour coal prep plant. The plant has been fully refurbished to process the company's production and take contract production from other mines. The Powellton operation has surface operations that were re-started in 2006 (and have subsequently been put on hold due to low steam coal prices), as well as an underground coking coal mine set to come online in 2008.

Increased value from coking coal in 2008

To date, Coal International has only produced steam coal for power generation. Beginning in 2008, the company will be mining coking coal for steal production. Coking coal is in demand, and commands a much higher price. As such, the company should see increased profits once the coking coal is online.

Sensitivities: Steam coal is a low margin business

Particularly with their steam coal business, it is difficult for Coal International to maintain a good margin. Coal sales are based on an agreement made with a power utility in advance, leaving the company to keep production costs below the sale price to preserve profits. Increased steam coal output along with the addition of coking coal to the balance sheet should help mitigate this risk by lowering per ton costs.

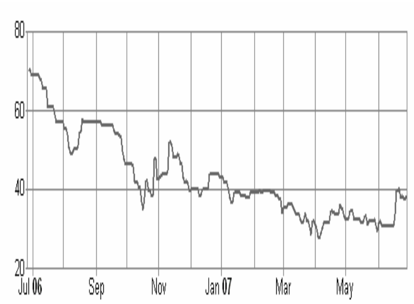
Valuation: Cheaper than book value

Owing to several quarters of unexpected operational losses, the market is trading Coal International at a very low level. Shares of the company should recover and enjoy a rerating in anticipation of the company's more profitable coking coal production coming online in 2008.

Price	38.25p
Market Cap	£37m

Note: Priced 28 June 2007

Share price graph



Share details

Code	CLN
Listing	AIM
Shares in issue	97.6m

Price

	High	Low
52 week	70p	27.5p

Balance Sheet*

Debt/Equity (%)	2.0
NAV per share (p)	13.6
Net debt (£m)	0.9

**as at 30 June 2006*

Business

Coal International has several operating coal mines in West Virginia, and has several development projects in the US and elsewhere.

Valuation

	2006	2007e	2008e
P/E relative	N/A	213%	56%
P/CF	N/A	N/A	20.1
EV/Sales	6.7	1.5	0.7
ROE	N/A	1%	6%

Geography based on revenues

UK	Europe	US	Other
0%	0%	100%	0%

Analyst
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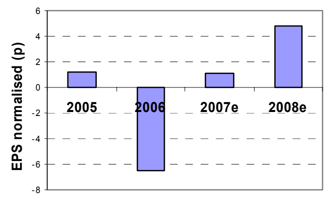
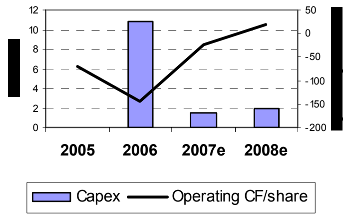
Coal International: Financials and performance indicators

Year end June	2005	2006	2007e	2008e
Profit & Loss				
Turnover	0	2,890	24,412	50,561
(% change)	N/A	N/A	745%	107%
EBITDA	(63)	(2,995)	4,630	9,763
(% margin)	N/A	N/A	19%	19%
(% change)	N/A	N/A	N/A	111%
EBIT pre GW and except's.	(63)	(3,320)	1,019	5,370
(% margin)	N/A	N/A	4%	11%
Net financial items	127	146	150	0
Other	0	0	0	0
Pre-tax profit (norm'd)	64	(3,174)	1,169	5,370
Tax	(32)	20	(126)	(690)
Net Income	32	(3,154)	1,043	4,680
EPS (norm'd and fd)	1.2	(6.5)	1.1	4.8
(% change)	N/A	N/A	N/A	349%
Balance Sheet				
Fixed Assets	7,146	70,220	75,331	72,938
Current Assets	16,712	3,106	11,241	20,150
Current Liabilities	(1,096)	(7,081)	(8,000)	(9,000)
Long term Liabilities	0	(8,680)	(1,509)	(1,509)
Shareholders Equity	22,762	57,565	77,064	82,579
Cash Flow				
Cash flow from operations	(557)	(6,947)	(2,388)	1,854
Capex	0	(10,821)	(1,500)	(2,000)
Net debt(cash)	(16,164)	900	350	350

EPS growth



Capex/Operating CF per share



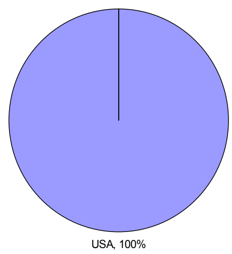
Catalysts

Date	Event
30/05/07	Capital reorganisation
23/05/07	Placing to raise £8.5m
25/05/07	Operations update

Commodity

Coal

Geographic breakdown



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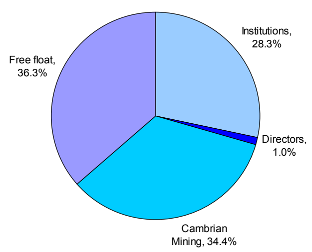


Edison investment research

GMA Resources

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	6.3	(2.4)	(1.2)	0.0	N/A	N/A
12/06	2.9	(2.8)	(0.7)	0.0	N/A	N/A
12/07e	24.4	2.4	0.5	0.0	27.0	N/A
12/08e	50.6	8.2	1.0	0.0	13.5	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Algerian gold production

GMA Resources owns a 52% stake in the Tirek-Amesmessa gold project in Algeria. The company is now mining at a rate of 8000/oz per month and developing the Amesmessa gold mine for annualised production of approximately 96,000oz. The start date of the heap leach has been pushed back two months to October 2007.

Equipment arriving on site

Mining equipment from Caterpillar and Tamrock is due to arrive on site in September. Plans for a modular ball mill are on hold as the company evaluates a second heap leach pad.

Regional gold upside

Historically, artisinal and low-technology miners have been active in the area. At 17km wide by 81km long, the trend covered by the land position of the Tirek-Amesmessa project presents a number of brownfields exploration possibilities. The north-south trend has numerous gold showings that have been worked and explored in the past. The company is applying modern geoscience to a broad exploration plan to identify further drill targets, as well as revisiting old data to evaluate the economics of trucking ore from known deposits once thought uneconomic to the new facilities.

Sensitivities: Gold, Algeria

The estimated cash costs for gold production at Amesmessa are just below US$300/oz. With so much margin on the current gold price, the company can withstand downward fluctuations in the spot price. GMA's 52% share gives the company operator status of the project. The remaining 48% stake is owned by Sonatrach, the Algerian state-owned oil and gas company. Sonatrach is a good partner in Algeria, their presence acting as that of a "prominent victim" — the government is unlikely to do anything to disturb their own interest in the project.

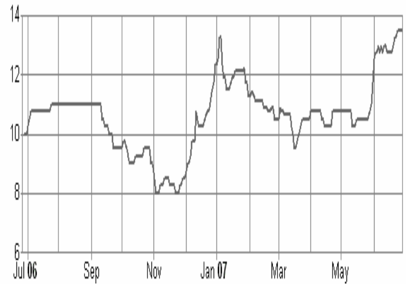
Valuation: Production underwrites exploration

With significant gold production from Amesmessa, the company is well-positioned to make further discoveries and bring them to production quickly.

Price	13.5p
Market Cap	£48m

Note: Priced 28 June 2007

Share price graph



Share details

Code	GMA
Listing	AIM
Shares in issue	354.4m

Price

52 week	High	Low
	13.5p	8p

Balance Sheet*

Debt/Equity (%)	27%
NAV per share (p)	0.2
Net debt (£m)	4.5

**as at 31 December 2006*

Business

GMA Resources controls 52% of the Tirek-Amesmessa gold project in Algeria. The mine is set to come into commercial heap leach production in late 2007.

Valuation

	2006	2007e	2008e
P/E relative	N/A	172%	99%
P/CF	N/A	28.9	13.4
EV/Sales	15.0	21.9	5.6
ROE	N/A	44%	19%

Geography based on revenues

UK	Europe	US	Other
0%	0%	0%	100%

Analyst
Mike Wood 020 7190 1770
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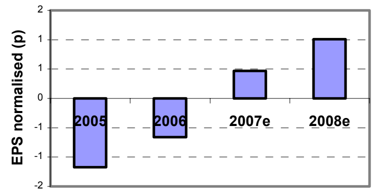
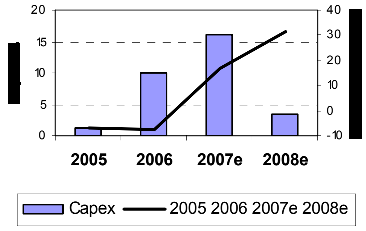
GMA Resources: Financials and performance indicators

Year end Dec	2005	2006	2007e	2008e
Profit & Loss				
Turnover	6,346	2,890	24,412	50,561
(% change)	N/A	-38%	13%	267%
EBITDA	(935)	(1,676)	4,202	10,064
(% margin)	N/A	N/A	17%	20%
(% change)	N/A	79%	-351%	139%
EBIT pre GW and except's.	(2,302)	(2,784)	2,540	8,236
(% margin)	N/A	N/A	10%	16%
Net financial items	(137)	(39)	(117)	(59)
Other	0	0	0	0
Pre-tax profit (norm'd)	(2,439)	(2,823)	2,423	8,177
Tax	0	0	0	(2,194)
Net Income	(2,439)	(2,823)	2,423	5,983
EPS (norm'd and fd)	(1.2)	(0.7)	0.5	1.0
(% change)	N/A	-44%	N/A	116%
Balance Sheet				
Fixed Assets	7,900	18,486	32,567	33,898
Current Assets	11,843	11,860	2,627	5,925
Current Liabilities	(5,725)	(6,152)	(3,721)	(5,675)
Long term Liabilities	(237)	(9,810)	(15,123)	(9,810)
Shareholders Equity	10,906	12,708	13,730	17,884
Cash Flow				
Cash flow from operations	(1,015)	(2,214)	5,410	10,031
Capex	(1,334)	(10,112)	(16,200)	(3,350)
Net debt(cash)	(6,267)	4,484	15,391	8,768

EPS growth



Capex/Operating CF per share



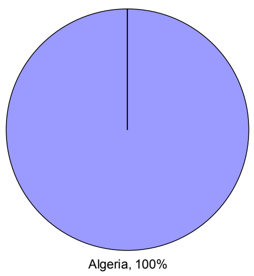
Catalysts

Date	Event
27/06/07	2006 results released
24/05/07	Convertible bond issue

Commodity

Au

Geographic breakdown



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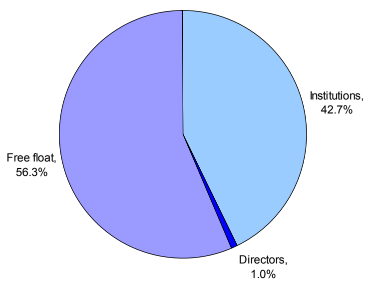
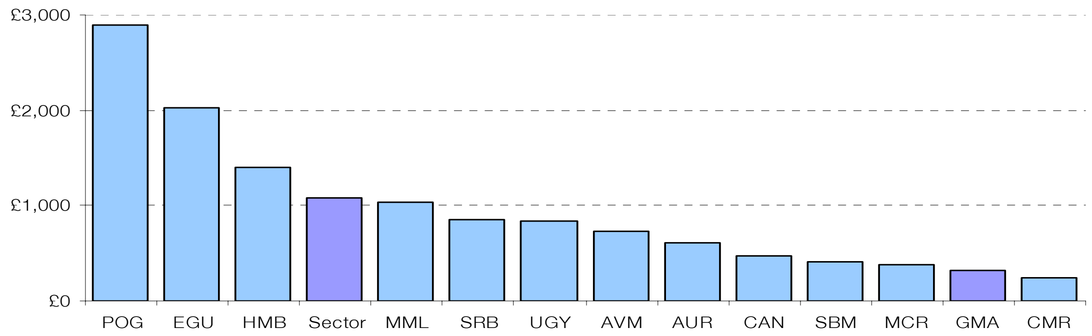


Peer comparison — Enterprise value per production ounce 2008e



Medusa Mining

Year End	Revenue (AU$m)	PBT* (AU$m)	EPS* (AU¢)	DPS (AU¢)	PE (x)	Yield (%)
06/05	0.0	(1.8)	(3.0)	0.0	N/A	N/A
06/06	4.9	(2.3)	(2.9)	0.0	N/A	N/A
06/07e	16.3	11.0	9.1	0.0	13.4	N/A
06/08e	50.0	37.7	22.2	0.0	5.5	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.
Exchange rate assumption: AUS$ = £0.4298

Investment summary: Growing gold production

Medusa Mining owns the Co-O gold mine which is centrally located in the company's 700km^2 of gold prospective ground along the East Mindanao Ridge, and has produced gold from Co-O at a profit for the last three quarters. Tonnage through their mill is growing through the addition of tonnes from neighbouring deposits. Medusa has growing gold production, virtually no debt and profits offset by tax losses.

Attractive growth profile

The company is on track for 18,000oz of gold in fiscal 2007. The production schedule projects 60,000oz for 2008 and 100,000oz for 2009. Medusa plans to achieve this by starting and scaling up operations in the vicinity of Co-O, putting ore from different deposits through the central mill.

Recent financing increases exploration upside

With a recent financing of roughly AU$20m, Medusa will repay their AU$5m deferred debt to Philsaga, and fund exploration of the region's porphyry copper prospects, focusing initially on the Lingig discovery.

Management success mitigates Philippines risk

Medusa's management has a long history in the Philippines. We believe its experience, contacts and understanding of the country helped it to win three cases related to a land claim against it, one in the country's Supreme Court.

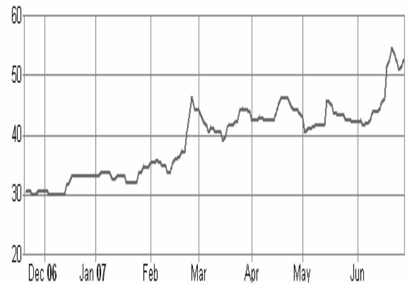
Valuation: Producer at a bargain price

Trading between 30p and 54.5p this year, the company is valued less than its peers. Using both discounted cash flow and peer comparison methods, Medusa is due for a rerating in the marketplace as gold production increases. With projected year-on-year production growth, shareholders taking a longer-term position will benefit.

Price	52.5p
Market Cap	£65m

Note: Priced 28 June 2007

Share price graph



Share details

Code	MML
Listing	AIM
Shares in issue	124.5m

Price

	High	Low
52 week	54.5p	30p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (¢)	21.6
Net cash (AU$m)	3.5

**as at 30 June 2006*

Business

Medusa is a gold company with profitable production from the Co-O mine on the island of Mindanao in the Philippines.

Valuation

	2006	2007e	2008e
P/E relative	N/A	80%	39%
P/CF	67.2	14.7	5.1
EV/Sales	12.0	5.9	3.0
ROE	N/A	16%	39%

Geography based on revenues

UK	Europe	US	Other
0%	0%	0%	100%

Analyst
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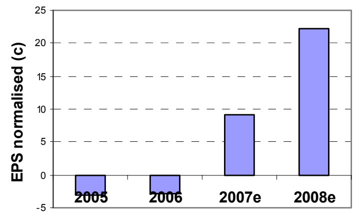
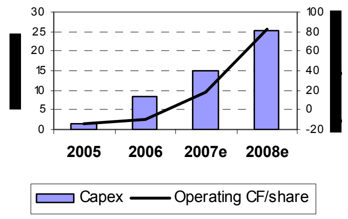
Medusa Mining: Financials and performance indicators

Year to Jun	2005	2006	2007e	2008e
Profit & Loss				
Turnover	0	4,900	16,324	49,992
(% change)	N/A	N/A	N/A	206%
EBITDA	(1,880)	(1,843)	15,877	44,350
(% margin)	N/A	N/A	97%	89%
(% change)	N/A	N/A	N/A	179%
EBIT pre GW and except's.	(1,888)	(2,342)	10,968	37,652
(% margin)	N/A	N/A	67%	75%
Net financial items	61	82	0	0
Other	0	0	0	0
Pre-tax profit (norm'd)	(1,827)	(2,260)	10,968	37,652
Tax	0	0	0	0
Net Income	(1,827)	(2,260)	10,968	37,652
EPS (norm'd and fd)	(3.0)	(2.9)	9.1	22.2
(% change)	N/A	N/A	N/A	143%
Balance Sheet				
Fixed Assets	3,167	10,252	61,357	80,018
Current Assets	472	4,212	21,795	32,097
Current Liabilities	(218)	(1,523)	(15,834)	(14,223)
Long term Liabilities	0	(31)	(375)	(375)
Shareholders Equity	3,420	12,910	66,943	97,517
Cash Flow				
Cash flow from operations	(389)	925	7,675	34,092
Capex	(1,540)	(8,393)	(14,869)	(25,358)
Net debt(cash)	(331)	(3,464)	(17,068)	(22,352)

EPS growth



Capex/Operating CF per share



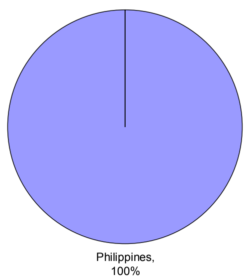
Catalysts

Date	Event
27/06/07	Funding update
20/06/07	Anoling drilling update
13/06/07	Acq. of Co-o Royalty

Commodity

Au

Geographic breakdown



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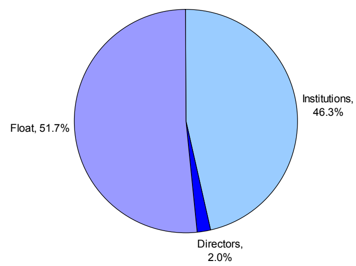
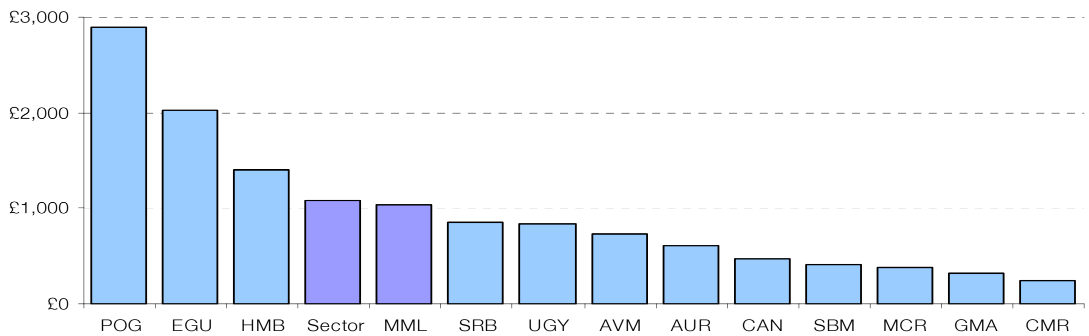


Peer comparison — Enterprise value per production ounce 2008e



Edison investment research

Mercator Gold

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/06	0.0	(1.8)	(7.5)	0.0	N/A	N/A
12/07e	21.1	8.2	13.2	0.0	6.1	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Emerging gold producer

Mercator has a large land position covering the entirety of an important historic gold camp in Australia. The company began mining gold at Meekatharra in June 2007. First production of gold from the Yaloginda Mill is scheduled to take place in July 2007. The potential exists for year-over-year growth beyond the 2007 production level, as ongoing exploration identifies additional resources and as other known deposits in their tenements come online. The company has no debt and has significant income tax deductions for the next two years.

Gold production on the horizon

In June 2007 Mercator began mining at the Surprise open pit. The company expects to produce approximately 68,000oz of gold in seven to nine months. Management has been focused on "production in 2007" for two years, and has moved in an orderly progression towards it. The company is currently on target for annualised production of 120,000oz, pending a positive mining decision at the PVC deposit in August.

Growth built in

Mercator's land position covers the entire Meekatharra gold district. Within the company's tenements are more than 30 past-producing mines and identified gold deposits. The company is undertaking reserve calculations and mine optimisations concurrent with production, with an eye to providing themselves an increasing pipeline of exploitable ore bodies.

Low risk, safe margins

No further capital expenditures are necessary this year to ensure production, and no equipment delivery is required. Management has outlined the Surprise open pit as an easily accessible low-cost ore body for start-up, with cash costs less than half spot.

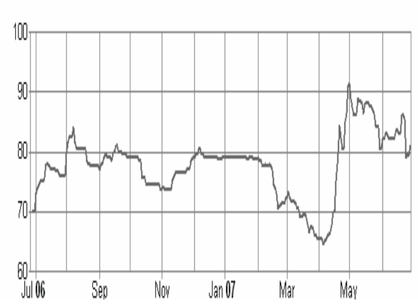
Valuation: Overdue for rerating

Mercator is currently trading at more than 30% discount to its exploration and development peers. Moving into production, the company should unlock shareholder value and achieve a rerating in a new peer group, eclipsing the current discount. The company is well-positioned to take advantage of high gold prices.

Price	81p
Market Cap	£50m

Note: Priced 28 June 2007

Share price graph



Share details

Code	MCR
Listing	AIM
Shares in issue	62.2m

Price

52 week	High	Low
	91.5p	64.5p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	44.8
Net cash (£m)	12.4

**as at 31 December 2006*

Business

Mercator is a gold company with gold production in the Meekatharra Gold District of Western Australia.

Valuation

	2006	2007e	2008e
P/E relative	N/A	43%	N/A
P/CF	N/A	10.8	N/A
EV/Sales	N/A	1.6	N/A
ROE	N/A	20%	N/A

Geography based on revenues

UK	Europe	US	Other
0%	0%	0%	100%

Analyst
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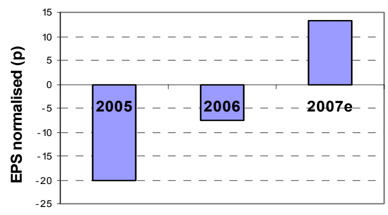
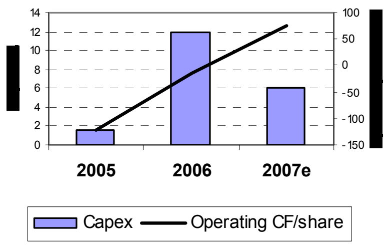
Mercator Gold: Financials and performance indicators

Year to Dec	2005	2006	2007e	2008e
Profit & Loss				
Turnover	0	0	21,081	N/A
(% change)	N/A	N/A	N/A	N/A
EBITDA	(905)	(1,846)	5,711	N/A
(% margin)	N/A	N/A	27%	N/A
(% change)	N/A	N/A	N/A	N/A
EBIT pre GW and except's.	(927)	(1,894)	7,865	N/A
(% margin)	N/A	N/A	37%	N/A
Net financial items	59	58	335	N/A
Other	0	0	0	N/A
Pre-tax profit (norm'd)	(867)	(1,837)	8,200	N/A
Tax	0	0	0	N/A
Net Income	(867)	(1,837)	8,200	N/A
EPS (norm'd and fd)	(20.3)	(7.5)	13.2	N/A
(% change)	N/A	N/A	N/A	N/A
Balance Sheet				
Fixed Assets	1,520	13,388	25,513	N/A
Current Assets	1,149	13,792	18,805	N/A
Current Liabilities	(573)	(1,141)	(1,900)	N/A
Long term Liabilities	0	(2,060)	(1,112)	N/A
Shareholders Equity	2,097	23,979	41,306	N/A
Cash Flow				
Cash flow from operations	(527)	(377)	4,673	N/A
Capex	(1,542)	(11,989)	(6,000)	N/A
Net debt(cash)	(954)	(12,442)	(15,650)	N/A

EPS growth



Capex/Operating CF per share



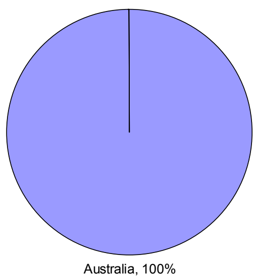
Catalysts/Recent News flow

Date	Event
Aug '07	Mining decision at PVC
Sept.'07	Production update
20/06/07	Reserves statement

Commodity

Au

Geographic breakdown (forecast)



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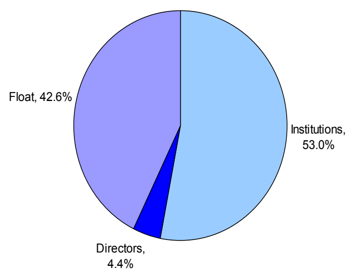
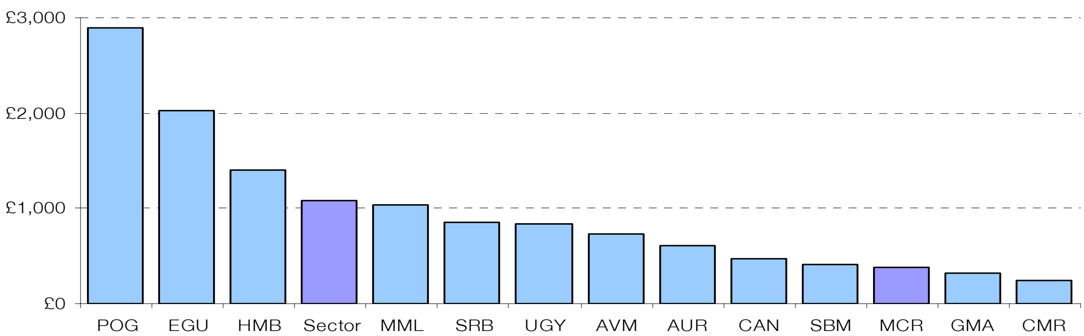


Peer comparison — Enterprise value per resource ounce



Serabi Mining

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	0.0	(1.2)	(1.4)	0.0	N/A	N/A
12/06	7.3	(2.5)	(2.0)	0.0	N/A	N/A
12/07e	31.9	10.8	7.0	0.0	6.5	N/A
12/08e	36.0	14.4	9.6	0.0	4.7	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Brazilian gold

Serabi Mining owns the Palito mine in the Tapajos Gold Province of Brazil. The mine is producing and currently at the end of a ramp-up phase to annualised production of gold and copper at roughly 50,000oz gold equivalent. The company controls further extensive exploration ground, most of which has historic production from artisinal workings in the alluvial and weathered portions of bedrock deposits.

Upgrades provide production increase

Serabi announced the beginning of sustainable commercial production from Palito on October 1, 2006. The mine has operated with continuous production from late 2004, with steadily increasing rates. Palito produced 17,000oz of gold equivalent in 2005, and is forecasting 45,000–50,000oz gold equivalent in 2007. The increase in production over the last two years has been achieved through the introduction of trackless mining and long-hole stoping.

Resource growth and regional exploration

Serabi's resources have the potential to increase substantially through exploration within the mine itself and from satellite deposits. The current mineral resource of 825,900 ounces of gold equivalent (4.6m tonnes at 4.9g/t Au and 0.22%Cu) takes into account mineralisation to a depth of 220m. The deposit is open at depth and along strike. Recent deeper drilling of the main zone and at Ruari's Ridge and Chico do Santo have shown good grades and continuity, which bodes well for the overall prospectivity around Palito.

Sensitivities: Gold prices

At a cash cost of roughly US$250/oz gold equivalent, Serabi's gold production has a very comfortable margin over the prevailing gold prices.

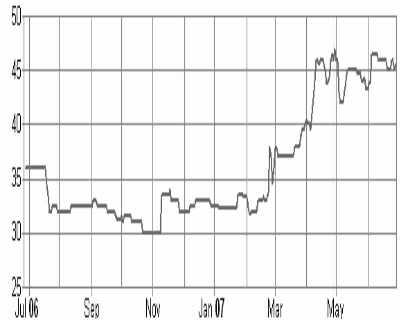
Valuation: Production underwrites exploration

Serabi is growing production and resources at the Palito mine and cash flows should pay for the expansion within the region. As a low-cost producer with increasing production, the company has an attractive investment profile for long-term investors.

Price	45.5p
Market Cap	£357m

Note: Priced 28 June 2007

Share price graph



Share details

Code	SRB
Listing	AIM
Shares in issue	111.1m

Price

52 week	High	Low
	47p	29.5p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	3.2
Net cash (£m)	3.5

**as at 31 December 2006*

Business

Serabi Mining owns the producing Palito gold mine in Brazil and extensive exploration ground in the area.

Valuation

	2006	2007e	2008e
P/E relative	N/A	39%	33%
P/CF	246.4	5.5	3.6
EV/Sales	6.4	1.3	1.3
ROE	N/A	13%	15%

Geography based on revenues

UK	Europe	US	Other
0%	0%	0%	100%

Analyst

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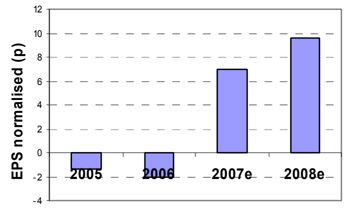
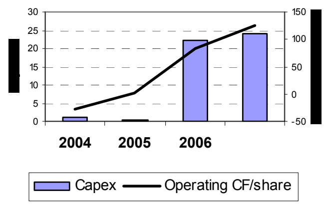
Serabi Mining: Financials and performance indicators

Year to Dec	2005	2006	2007e	2008e
Profit & Loss				
Turnover	0	7,256	31,891	36,006
(% change)	N/A	N/A	340%	13%
EBITDA	(1,044)	(782)	13,318	16,228
(% margin)	N/A	-11%	42%	45%
(% change)	N/A	N/A	N/A	22%
EBIT pre GW and except's.	(1,155)	(2,247)	10,136	12,244
(% margin)	N/A	-31%	32%	34%
Net financial items	(49)	(219)	697	2,174
Other	0	0	0	0
Pre-tax profit (norm'd)	(1,204)	(2,466)	10,833	14,418
Tax	0	0	(2,029)	(2,387)
Net Income	(1,204)	(2,466)	8,804	12,030
EPS (norm'd and fd)	(1.4)	(2.0)	7.0	9.6
(% change)	N/A	N/A	N/A	37%
Balance Sheet				
Fixed Assets	24,936	30,410	48,354	68,631
Current Assets	6,796	8,949	37,517	34,318
Current Liabilities	(2,451)	(4,812)	(18,591)	(20,990)
Long term Liabilities	(674)	(1,349)	0	0
Shareholders Equity	28,607	33,198	67,279	81,959
Cash Flow				
Cash flow from operations	(2,796)	200	10,392	15,740
Capex	(968)	(374)	(22,103)	(24,000)
Net debt(cash)	(2,152)	(2,906)	(15,138)	(9,052)

EPS growth



Capex/Operating CF per share



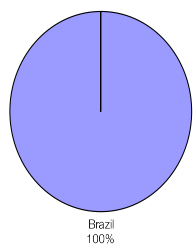
Catalysts/ Recent news flow

Date	Event
Jul '07	Q2 production update
Sep '07	Interim results
Q3 '07	Ruari's Ridge exploration results
Q3 '07	Chico do Santo exploration results

Commodity

Au, Cu

Geographic breakdown (forecast)



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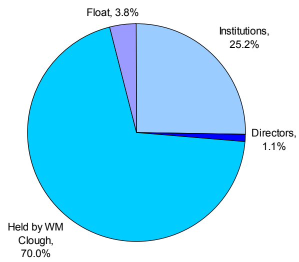
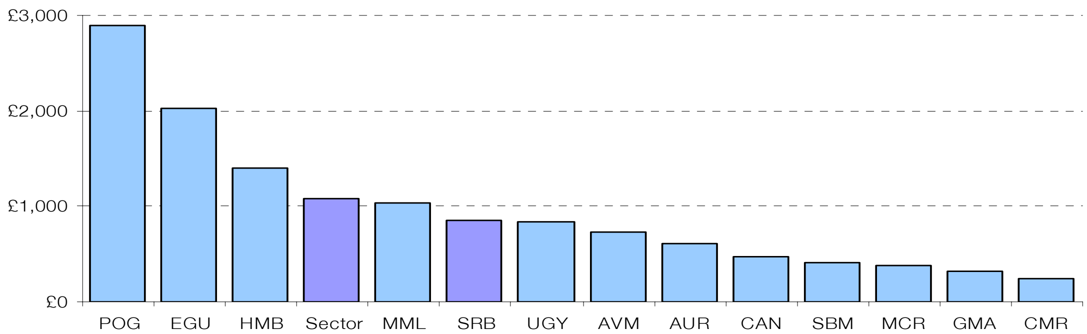


Peer comparison — Enterprise value per production ounce 2008e



Edison investment research

ZincOx

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
12/05	0.0	(0.6)	(2.1)	0.0	N/A	N/A
12/06	0.2	(4.8)	(10.9)	0.0	N/A	N/A
12/07e	4.5	(5.0)	(10.3)	0.0	N/A	N/A
12/08e	78.2	31.0	48.7	0.0	7.3	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Zinc from recycled steel

ZincOx specialises in the production of zinc from oxide sources, having pioneered several new mineral extraction technologies. The company owns the Jabali mine in Yemen and has cash flow in the form of deferred payments coming from the sale of the Shairmerden mine in Kazhakstan. ZincOx's major growth propostion is its recycling technology, which reclaims zinc from electric arc furnace dust (EAFD) which is a toxic byproduct of the steel recycling industry worldwide.

Technology-driven zinc production

The company expects its Big River Zinc smelter in St.Louis to be in operation by the second half of 2008. Two EAFD plants, one in Turkey and one in Ohio will supply the BRZ with enough concentrate to produce 90,000t of zinc, 10,000t of lead, as well as pig-iron.

Expansion of EAFD business

ZincOx has the potential to take advantage of EAFD sources all over the world. With first-mover advantage and proven technology, the company could process EAFD in numerous locations, shipping concentrates to centralised proprietary smelters.

Sensitivities: Looming capex, profits geared to zinc prices

ZincOx needs in excess of US$300m to fund their three EAFD recycling projects (BRZ, Ohio, Aliaga). At present, they are examining a number of ways to raise this capital, including a 2/3 debt option as well as involving strategic partner Teck Cominco. As ZincOx's EAFD projects are recovering zinc from an otherwise toxic waste product of steel recycling, that business is less affected by commodity prices. The Jabali mine produces pure zinc oxide, which sells at a premium to zinc metal, providing further mitigation of the effects of a downturn in zinc prices.

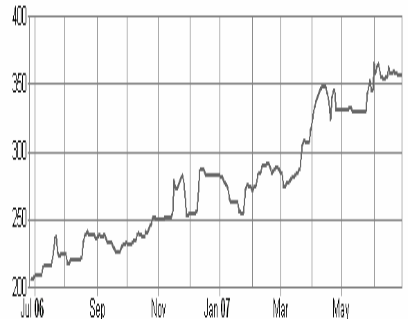
Valuation: Emerging need for recycling

ZincOx has first-mover advantage in a market that could become very lucrative. By itself, the volume-reduction of toxic EAFD from steel mills is good business; the zinc, lead and pig iron ZincOx can extract make it a much more attractive business.

Price	356.5p
Market Cap	£174m

Note: Priced 28 June 2007

Share price graph



Share details

Code	ZOX
Listing	AIM
Shares in issue	48.9m

Price

52 week	High	Low
	366p	205p

Balance Sheet*

Debt/Equity (%)	N/A
NAV per share (p)	11.0
Net cash (£m)	23.2

**as at 31 December 2006*

Business

ZincOx produces zinc from oxide sources; the Jabali mine in Yemen and the electric arc furnace dust (EAFD) from steel recycling.

Valuation

	2006	2007e	2008e
P/E relative	N/A	N/A	51%
P/CF	N/A	33.4	4.5
EV/Sales	742.2	55.3	3.5
ROE	N/A	N/A	36%

Geography based on revenues

UK	Europe	US	Other
0%	0%	75%	25%

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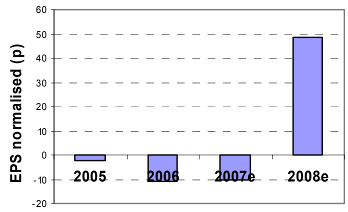
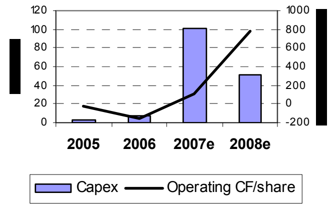
ZincOx: Financials and performance indicators

Year end Dec	2005	2006	2007e	2008e
Profit & Loss				
Turnover	0	169	4,532	78,159
(% change)	N/A	N/A	2582%	1624%
EBITDA	(772)	(5,525)	5,453	49,288
(% margin)	N/A	N/A	N/A	63%
(% change)	N/A	N/A	N/A	804%
EBIT pre GW and except's.	(789)	(5,525)	(3,076)	36,698
(% margin)	N/A	N/A	N/A	47%
Net financial items	226	745	(1,971)	(5,700)
Other	0	0	0	0
Pre-tax profit (norm'd)	(563)	(4,780)	(5,047)	30,998
Tax	(6)	(13)	0	(7,201)
Net Income	(570)	(4,793)	(5,047)	23,797
EPS (norm'd and fd)	(2.1)	(10.9)	(10.3)	48.7
(% change)	N/A	414%	-5%	N/A
Balance Sheet				
Fixed Assets	6,872	19,354	112,047	150,068
Current Assets	4,303	34,254	8,007	25,442
Current Liabilities	(438)	(3,715)	(408)	(7,034)
Long term Liabilities	0	(1,698)	(76,500)	(101,534)
Shareholders Equity	10,737	48,195	43,146	66,942
Cash Flow				
Cash flow from operations	(824)	(6,439)	5,217	38,480
Capex	(2,856)	(7,499)	(101,224)	(50,612)
Net debt(cash)	(3,935)	(23,176)	76,500	101,534

EPS growth



Capex/Operating CF per share



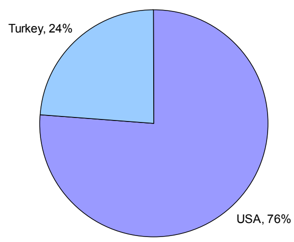
Catalysts

Date	Event
08/2007	Possible financing decision

Commodity

Zn

Geographic breakdown (forecast)



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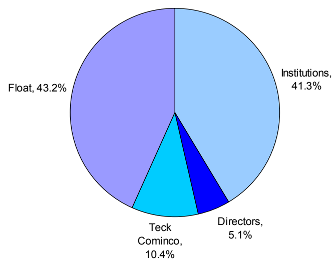

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