FAIRFAX DAILY MARKET REPORT

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Morning view FAIRFAX

Australian super tax – shocks investors and sets a terrible precedent for other countries

- Rudd's 'labour' government is looking to extort a new 40% resources tax on Australian commodities
- In effect this tax on highly efficient resource companies simply robs investors of their gains so that politicians can spend the funds on highly inefficient social programs.
- The structure and scale of the tax will persuade companies and investors to look elsewhere for future development. There will also be little reason to maintain operating efficiencies.
- The key commodities of iron ore and coal are not exclusive to Australia and the strength of the Australian dollar already makes investment elsewhere look more compelling.
- Cape Lambert has already suspended work at its Cape Lambert south iron project in the Pilbara. The company will no doubt reallocate resources into its projects in Africa.
- We saw a number of marginal iron ore and coal projects last year based in Australia. A number of these projects could have been financed through higher commodity prices this year but will not find much investor interest with the new super tax hanging over them.
- Introduction of the supertax in July 2012 may hit companies at a time when margins may be under pressure from rising costs and falling commodity prices.
- The tax is supposed to fund pension and welfare support in Australia but will reduce dividends and stock performance for the pension funds of tens of thousands of investors who have supported resources companies through tough times. In essence, efficient businesses are being penalised in favour of less efficient politically-inspired spending.
- Australia has survived the 'financial crisis' relatively unscathed and has little need to impose this form of taxation other than for political gain. We could understand if Greece, Spain or the UK were to impose such a tax but for Australia to do so looks like political greed on a large scale.

Conclusion: we expect investors to sell Rio Tinto, BHP Billiton, Xstrata for some time in protest at the move. The mood is spread more widely as some other countries may follow with their own supertax proposals.

Dow Jones Industrials	-2.02% at 10,926.77
Nikkei 225	+1.21% at 11,057.40
HK Hang Seng	-1.69% at 20,412.96

Please refer to the Economic calendar at the end of the note.

Australia – The Reserve Bank of Australia appeared to be very dovish in its comment after raising rates to 4.5% yesterday.

- Miners reported that they may reduce dividends as a result of higher tax on mining profits.
- The proposed tax includes rebate for exploration companies, although it is unclear that it will be sufficient for small projects.

US – Further signs of improvement from the US as factory order and pending home sales rose more than expected in March. Not a surprise for the market any more as all eyes are on the EU.

- Pending home sales represent deals that are signed but not yet completed. The indicator rose 5.3% mom in March as home buyers are trying to benefit from the home tax credit scheme that ended on 30th of April.
- April's home sales data will also be supported by the stimulus measures. Important to see how sales will perform after the end of tax scheme.

Europe – Rumors that Spain is negotiating Eur280bn with IMF, although prime minister rejected any speculations.

- ECB has agreed to accept Greece sovereign debt instruments rated as Junk by S&P as a collateral. The Bank may be required to do so for other weak EU states.
- German parliament will vote on the rescue package for Greece on Friday. Germany's share in the financial aid is Eur22bn, the biggest among all states. German chancellor pushes for the introduction of the restructuring procedure for insolvent EU members.

China – Chinese manufacturing activity growth reduced to the lowest level in 6 months in April. PMI manufacturing reduced to 55.4 in April from 57.0 a month earlier.

- Shanghai Composite dropped to the lowest level in 7 months on concerns over slowing Chinese growth, additional measures to limit speculations on property market and European sovereign debt crisis.

South Africa – 42,500 workers at state owned rail operator Transnet are set to go on strike on 10th May that could have a significant impact on the mining industry.

- Commodities such as coal, ferrochrome and other high tonnage operations could be hit hard. Smelters are also dependant on the rail infrastructure to bring in key raw materials.
- Unions are seeking a 15% salary hike versus an offer of only 8%.

Guinea - Guinea's opposition party says that it will not recognise Vale's US$2.5bn purchase of iron ore assets if it wins the election scheduled in June. Vale bought a majority stake in BSG resources. This highlights the potential risk of operating in Guinea.

Zimbabwe – Government rejects bid from ArcelorMittal South Africa and India's Jindal Steel & Power for a majority stake in the heavily indebted (around US$300m) Zimbabwean Iron and Steel Works. Both companies were bidding for a 60% stake. The operation may need US1bn to get up and running.

Currency – Euro continue to fall against US dollar this morning on growing fears that sovereign debt crisis will spread on other weak European states.

US$1.295/eur vs $1.316/eur yesterday. **Yen94.71/$** vs 94.75/$ **SAr7.580/$ vs** 7.437/$
$1.515/GBP vs 1.520/GBP

Precious Metals

Gold US$1,167/oz vs US$1,176oz yesterday – Dollar strength undermines gold prices

- Weakening equity markets encourage investors to move into US$ hence the stronger currency.
- Anglo Gold Ashanti, Gold Fields and Harmony gold could see a tough June quarter leading to weaker production due to higher power costs and a new South African revenue based royalty (2-3%) that will impact costs according to a Reuters article.
- **SPDR unchanged at 1,159.00 (37,263moz) Current value US$44.138bn.**

Platinum US$1,674/oz vs US$1,735/oz yesterday –

Palladium US$511/oz vs US$553/oz yesterday –

Rhodium US$2,850/oz vs US$2,850/oz yesterday –

Silver US$17.69oz versus US$18.64/oz yesterday –

Base metals:

Copper US$7,015/tvs US$7,435**/**t yesterday – Dollar strength also hits base metals with copper slipping back

Aluminium US$2,143/t vs US$2,230/t yesterday –

Nickel US$24,075/tUS$25,825/t yesterday –

Lead US$2,048/t vs 2,240/t yesterday –

Zinc US$2,148/t vs 2,302/t yesterday – World's largest zinc producer, Nyrstar has settled the majority of TC/RC up 22.5% from last year's base of US$204/t at a basis zinc price of US$1,250/t.

Tin US$17,850/t vs US$18,450/t yesterday –

Energy:

Oil US$85.29/bbl vs US$87.48/bbl yesterday – Prices drift back in response to firmer US$

Gas US$4.017/ MMBTU vs US$3.994/MMBTU yesterday – US prices hold up as news reports show strengthening in US economy.

- Moody's say that natural gas prices are to stay low over next 12-18 months as developed oil shale acreage continues to provide plentiful supplies.
- Qatar plans to increase exports of LNG and low sulphur condensates as new GTL and natural gas plants start up over the next two years.

Mining:

Shanta Gold (SHG LN) 19p, mkt cap £20m - £2m of new funds supports exploration and gold mine development

BUY - target to 34p (from 30p)

- Shanta announced yesterday the completion of a £2m fund raising at 20 pence per share
- The funds are to be used to further exploration at Chunya and Singuida in Tanzania
- We are expecting news on the Chunya feasibility study sometime soon and we also expect work at Singuida should lead to a new discovery there in time.
- There is significant new institutional interest in the stock following the funding which we expect to continue to support the shares going forward.

Cape Lambert (CFE AU) A$0.425, mkt cap A$252 – suspends exploration at Australian iron ore project

- The company is looking to reallocate A$10m-A$15m of planned exploration expenditure on Cape Lambert iron ore project in Pilbara region to the Marampa iron ore prospect in Sierra Leone.
- Marampa is a fully owned project with potential Resources in excess of 1mt. The company planned to approve Resources with JORC by the end of 2010. Additional A$10-A$15m will help to speed up process of defining JORC compliant resources.
- This is yet another example that proposed 40% tax on mining profits may reduce investments in Australia.
- CFE holds divers portfolio of assets that mainly include iron ore, coal, copper, gold and uranium assets.
- The company acquires projects that are considered to be undervalued or distressed. The company then adds value through bringing projects to the stage where JORC compliant resources are defined. They usually stop at this point or may go through pre feasibility study if it contributes to NPV. After that asset is being sold to the third parties.

Centamin Egypt (CEY LN) 129p mkt cap £1,318m – Quarterly update

- Centamin produced 36,621oz at a cash cost of US$403/oz and sold 32,994oz gold at an average price of US$1,105/oz during Q1 of this year.
- The stage 1 process plant throughput of 4.0mtpa has been achieved with a recovery of 90%. Proven and probable reserves stand at 7.1mo, with 8 drill rigs active identifying additional resources.
- Work is underway on the stage 2 sulphide circuit which is expected to cost US$267m. At the end of March the company had no debt and cash of US$35.1m and will be generating significant cash in he current environment.
- A stage 4 expansion scoping study has started.

Conclusion: This appears to have been a good quarter for Centamin as its ramps up its major Sukari gold project. The low cash cost is excellent news particularly as it is still building up its production levels.

Medusa Mining* (MML LN) 274p mkt cap £506m – New porphyry copper gold target

- Medusa has discovered a new outcropping porphyry copper-gold target named Usa that has been identified through outcrop sampling over an area that extends around 500m by 500m with values ranging up to 0.59% copper and 0.42g/t gold.
- The Usa target sits adjacent and to the west of the highly prospective Barobo Fault corridor, along which lies the 650,000oz gold inferred Bananghilig resource. This fault is parallel to the Philippine rift fault around 30km distant.
- Usa is largely contained within a MPSA (Mineral Production Sharing Agreement), and Medusa has an memorandum of agreement with Corplex Resources whereby Corplex will receive a 4% gross royalty on production. Alternatively, upon completion of a scoping study for a major discover demonstrating a 5 year mine life, then Corplex could buy back a 30% interest for four times the expenditure on the tenement and contribute 30% to all ongoing expenditure from the point of buy back. If Corplex elects not to contribute, then It can elect to dilute to 15% free carry to start of production at which point the company will loan Corplex for 15% of expenditure. Without the buy back Corplex will maintain its 4% royalty.
- There are indications that the target could extend into a separate license package owned by Mindanao Philcord Mining Corp that would receive a 1% net profits interest on any production.
- **Valuation:** We are currently reviewing our numbers following last week's site visit which demonstrated some of the company's potential yet to be realised. Our previous target stood at 288p based off 100,000ozpa of production at US$200/oz cash cost, but there is clearly significant expansion potential through Co-O and other targets in the company's tenement package.

Conclusion: This result highlights the potential within Medusa's tenement package and is one of several copper porphyry targets. We visited site last week and were impressed with the progress being made with the company's highly profitable Co-O mine that is funding the aggressive exploration programme (US$18m budgeted this year). The Barobo corridor hosts considerable potential for copper gold mineralisation as is demonstrated by Usa and the 650,000oz Bananghilig target. Ongoing drilling is focusing on gold targets for the time being.

June year end US$		2008A	2009A	2010F	2011F	2012F	2013F
Gold Price	US$/oz	822	880	1080	1000	950	900
Gold Produced	oz	19	48	90	100	100	100
Revenue	**US$m**	**15.9**	**42.9**	**96.0**	**100.4**	**97.5**	**94.6**
EBITDA	US$m	5.8	27.3	71.4	71.1	66.2	61.2
Pre tax profit	US$m	-0.1	22.5	60.9	60.2	56.4	53.2
Post Tax Profit	**US$m**	**-2.2**	**24.2**	**60.9**	**60.2**	**56.4**	**53.2**
EPS	(UScents)	-1.4	14.2	32.4	32.0	30.0	28.3
PER (x)	**(X)**	**nm**	**29.4**	**12.9**	**13.0**	**13.9**	**14.7**
Freecash	**US$m**	**-9.9**	**-1.4**	**34.1**	**49.0**	**47.4**	**52.4**

Source: Fairfax & Medusa

* *Fairfax acts as Nomad and Broker to Medusa Mining*

Minera IRL (MIRL LN) 66p mkt cap £57m – Update on pre-feasibility study at Ollachea

- Following the release of a positive scoping study last November based on an inferred 1.3moz resource the company's pre-feasibility study at Ollachea is on target for completion for Q1 next year.
- 18 of 38 in-fill diamond holes have been completed with results in line with expectations.
- 10 exploration holes beyond the current 680m strike extent identified within the Minapampa zone indicate that mineralisation continues to almost 900m. Two diamond rigs are carrying

out infill drilling and should lead to resource upgrades particularly if extending the known strike extent which is open along strike and at depth.

Conclusion: We see Ollachea as evolving into the company's flagship asset following up from the operating Corihuarmi mine which the company developed proving the team's ability to build mines and the Don Nicholas project which is being worked on.

Performance of key recommended stocks over the past 12 months (%)

Name	Price 05.05.09	Price 05.05.10	Performance over last 12 months (%)
Ampella Mining	24.5Asc	142.5 ASc	481%
Antofagasta	645 p	884 p	37 %
Discovery Metals	12.75 p	46 p	260 %
Highland Gold	50 p	128 p	156 %
International Ferro Metals	43.5 p	36.5 p	-16 %
Medusa Mining	73.2 p	275.5 p	276 %
Oxus Gold	6.9 p	6.5 p	-6 %
Polymet	116 USc	196 USc	69 %
Shanta Gold	3.25 p	19 p	485 %
Petropavlovsk	625 p	1090 p	74 %

Mining this week:

Iofina (IOF LN) 48p mkt cap £49.75m – Permit for 30,000bbl/day water discharge

Metals Exploration (MTL LN) 13.5p mkt cap £36.4m – Feasibility study and resource update

LandOre* (LND LN) 117.75p mkt cap £23.6m – Drilling update on Junior Lake-Lamaune Gold prospect

* *Fairfax acts as broker to LandOre*

Patagonia Gold (PDG LN) – raise £13m for gold projects in Argentina

Stellar Diamonds (STEL LN) 14.25p mkt cap £13.76m – Acquisition of Kono Diamond Project

Economic calendar

Weekly Economic Calendar 03th – 07th May

	Time		Event: G7, AU, China	Date*	Survey	Prior	Actual
Tue	03:30	CH	HSBC PMI Manufacturing	APR		55.4	57.0
	05:30	AU	RBA CASH TARGET	May-04	4.50%	4.50%	4.25%
	07:00	GE	Retail Sales (MoM)	MAR	0.00%	-2.4%	1.1%
	07:00	GE	Retail Sales (YoY)	MAR	-0.50%	2.7%	-0.40%
	09:30	UK	PMI Manufacturing	APR	57.5	58.0	57.2
	10:00	EC	Euro-Zone PPI (YoY)	MAR	0.90%	0.90%	-0.50%
		EC	**EC Spring Economic Forecasts**	**May-04**			
	15:00	US	Factory Orders	MAR	0.00%	1.3%	0.60%
	15:00	US	Pending Home Sales MoM	MAR	5.0%	5.3	8.20%
	21:30	US	API U.S. Crude Oil Inventories	Apr-30	- -	2951K	5344K
Wed	09:00	EC	PMI Services	APR F	55.5	- -	55.5
	09:00	EC	PMI Composite	APR F	57.3	- -	57.3
	10:00	EC	Euro-Zone Retail Sales (YoY)	MAR	-0.50%	- -	-1.10%
	10:00	EC	Euro-Zone Retail Sales (MoM)	MAR	0.10%	- -	-0.60%
	10:00	EC	**EC Releases Economic Forecasts**	May-05			
	13:30	US	**Fed's Rosengren Speaks on Housing**	May-05			
	15:00	US	ISM Non-Manf. Composite	APR	56	- -	55.4
	15:30	US	DOE U.S. Crude Oil Inventories	Apr-30	- -	- -	1963K
		EC	EU's Barnier Meets With German Ministers; Gives Speech on EU future				

Source: Bloomberg

Newcrest (NCM AU) A$30.70, mkt cap A$14.84bn – raised its bid for Lihir Gold to A$9.5bn

- A$9.5bn bid values Lihir at A$4.03/share. The merger will create 5th largest gold producer.

Polo Resources (PLM CN) 5.15p, mkt cap £120m – possible merger with Caledon Resources

- Polo and Caledon reached principle understanding regarding merger of two companies. In case management decide to proceed with the deal, Polo will be prepared to make all share offer for 100% stake in Caledon at 11.4 Polo shares for 1 Share in Caledon.

MacArthur Coal (MCC AU) A$16.52 mkt cap A$4,201m – Xstrata may enter the fray, potential A$4bn bid

- Press reports in Australia indicate that Xstrata may bid A$4.0bn for MacArthur.

Rio Tinto apparently in talks with Chinalco to develop the Simandou iron-ore project in Guinea.

- The project is expected to cost $12bn
- Rio have declined to comment

Atlas Iron (AGO AU) A$2.31 mkt cap A$1,033m – Deal to acquire Aurox Resources for A$131m

- All scrip bid agreed to buy Aurox resources to expand Atlas's port capacity and iron ore resources. The merger if agreed by shareholders is due to complete in May

Arrow Energy (AOE) A$5.11 mkt cap A$3,747m – Shell & PetroChina make A$3.3bn offer

- Cash offer made by Shell and PetroChina for Arrow Energy, which is the largest holder of coal-seam gas acreage in Australia.

Chariot Resources (CHD CN) C$0.64 mkt cap C$234m – Sale agreement with China Sci-Tech

- Copper exploration company Chariot with a deposit in Peru has signed a sales agreement with China Sci-Tech Holdings to purchase all shares for C$0.67/share.
- This highlights Chinese interest in securing copper assets.

+Fairfax employees may have previously held, or currently hold, shares in the companies mentioned in this note.

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