HYBRIDAN

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Junior Mining Sector: *Rotten Apples* or a *Rotting Barrel?*

There appears to be no end in the sight for the 'love lost' plaguing the resource community as the frustration between investors and corporates continues.

Investors continue to be disenchanted with the macro commentary on commodities. It usually hails from the struggling resource fund manager pre-marketing announcing that we have hit the bottom in the sector; and yet prices and sentiment continue to slide. There are also queues of corporates lining up to tell investors that their shares are very cheap right now, great time to get in to realise all the upside. Again, shares continue to disappoint.

With all corporates singing from the same hymn sheet it has led to an intense atmosphere of confusion and lack of trust in the sector from investors. It has never been more difficult to sift through all the market noise to get to the decent mining companies on AIM (of which there are plenty) when many of them have been tarred with the same brush. This is the situation that has led investors to ask whether the sector is a case of a few rotting apples or a rotting barrel.

It is definitely a case of the former as junior mining companies have been grouped together and quite wrongly. There are a group of companies that have used the poor market sentiment towards the sector as an excuse to sit back and not progress their various projects. Thankfully, investors have been wise to these select few and AIM has been through a process of natural selection whereby many juniors have fallen by the way side – which is a good thing.

There are companies however (the frustrated few) who have successfully advanced aggressive drill programs regardless of the market sentiment. It is these companies that have fallen victim to a valuation gap – where there is a lack of share price appreciation to the very positive drills results certain companies have been releasing, for example **Conroy Gold and Natural Resources (CGNR)**. They will be the first movers when the upturn eventually hits.

It's not all doom and gloom as there are signs of life. First, share price appreciation to promising RNSs is starting to be factored in; companies such as **Mariana Resources (MARL), Bacanora Minerals (BCN)** and **DiamondCorp (DCP)** have received a warm reception from investors the past quarter off the back of solid progress in their respective projects. Second the specialist resource and large debt investors are returning to the sector to provide corporates with the critical funding they need to progress their projects. This was most notably seen with Sprott Asset Management joining the shareholder register of **Mariana Resources (MARL),** Tembo Capital supporting **Amara Mining's (AMA)** £14.6m placing and **DiamondCorp's (DCP)** US$7 million royalty financing agreement to ramp-up the operations at their Lace Mine.

Looking ahead, investors will remain very cautious in the short to medium turn. Grandiose macro calls on the sector should continue to be taken with a pinch of salt and be wary of the true effect that these macro themes have on the junior mining sector. Unlike macro calls, the only certainty of the sector is that all companies should not be tarred with the same brush. As shown above, there are companies making significant headway and weathering the storm and they are the ones to watch as they are the ones who will flourish when sentiment turns.

Reviewed by Niall Pearson

For important disclosures, refer to the Disclaimer at the end.

Metal	Unit	Price as at end of March 2015	3mth Performance	6mth Performance
Aluminium	US$/MT	1,773.9	-7.1%	-10.9%
Copper	US$/MT	5,939.7	-7.9%	-13.6%
Gold	US$/oz	1,178.6	-1.8%	-4.7%
Iron Ore	US$/MT (dry)	56.9	-17.2%	-30.8%
Silver	Usc/oz	1,624.0	-0.3%	-11.6%
Nickel	US$/MT	13,755.5	-7.4%	-23.7%

Source: www.indexmundi.com

RAPI: RapNet Diamond Index

	Weekly: Apr. 15 - Apr. 22	*2015 YTD: Jan. 1 - Apr. 22, 2015 Y2Y*	*Apr. 22, 2014 - Apr. 22, 2015*
RAPI 0.3 ct.	0.90%	0.00%	-20.80%
RAPI 0.5 ct.	-0.70%	-3.80%	-8.80%
RAPI 1.0 ct.	-0.10%	-5.10%	-14.00%
RAPI 3.0 ct.	-1.30%	-3.90%	-15.70%

Source: Rappaport Weekly Report www.diamonds.net

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Mining Equipment Sales Outlook

It has been a tough several years for explorers and miners, before even the collapse of commodity prices, input costs had been soaring. Lack of qualified staff, high energy and material costs (particularly oil based chemicals) had ramped up exploration and production costs alike. Increased demand for mining equipment began inflating prices of machinery and associated consumables early in the cycle, creating its own mini bubble. That is all in the past now and the providers of mining equipment have gone from feast to famine, like their customers. Mining Equipment orders can reasonably be viewed as a leading indicator of capex in the mining industry and as it is relatively easy to keep an eye on the fortunes of the major OEM players it is worth keeping an eye out for green-shoots in the sector. Sadly looking at some of the recent pronouncements from some of the major mining equipment OEMs does not make pretty reading, nor does it give much promise for the immediate future with most predicting this year will be worse.

Komatsu's [6301:TYO] year to March results highlighted that the sales decline in Latin America last year was linked to the weakness in the global mining sector. Komatsu also singled-out the CIS as a difficult market, with the Russian economy being hit by currency depreciation as well as the weakness in commodity prices. They are forecasting further declines of around 5% sales for next year.

Hitachi Construction Machinery [6305:TYO] also noted that weak global demand for mining equipment has had an impact in the Americas, Indonesia, Australia and Russia.

Same story from **Caterpillar [CAT:NYSE]** The CEO's Q1 15 statement re-iterated, "Resource industries was also down 23% in Latin America, reflecting continuing weakness in mining and that's pretty much the case in every region." And looking forward he added, "Mining hasn't shown improvement yet and while we're still planning a sharp decline in our oil related sales in 2015, we are still concerned around that."

Joy Global [JOY:NYSE] is more focussed towards coal mining, reporting a 10% decrease for underground machinery and a 28% decrease for surface mining equipment.

Atlas Copco's [ATCO-A:STO] Q1 presentation was the only one to show any glimmer of hope: "…The good part in Mining and Rock Excavation that we're seeing in the last five, six months is a solid growth development on service and that's good…, but again you need to make a bit of a distinction, exploration is still very low, where we see production drilling at the good level…But we see a good development here. And you see it also in the consumptions of iron ore, zinc and copper that the world is still using …"

Sandvik's [SAND:STO] outlook backed this up, "… continue to see invoicing decline in the mining sector and this will likely to be continued in the future driven by our mining systems business. On the other hand, when it comes to the equipment and aftermarket parts of our business there the market is quite stable and we have a neutral book to bill. So the weaker or the negative book in bill in mining is fully driven by the weaker order intake in the mining systems business which is quite normal given the low capital expenditure levels we're seeing in the mining companies right now."

Reviewed by William Lynne

Economic Review

The global economy is still striving to gain momentum as many high-income countries continue to wrestle with repercussions of the recent global financial crisis and emerging economies are now less dynamic than in the past. The recovery in high-income economies has been somewhat unequal, as some (USA and UK) have surpassed pre-crisis output peaks, but others (Euro Area) are still below former peaks. The global economic outlook deteriorated in the second half of 2014 and has not improved yet. Downward-trending metal prices, with copper, tin and lead were all below their respective levels at the start of 2014, while nickel, zinc and aluminium have held up better. Precious metals were met with further weaknesses last year; there were bouts of strength but prices have generally consolidated at lower levels.

Copper

Copper is employed in a vast range of industries including electronics, construction and automotive, and will now be needed more than ever to satisfy the needs of an ever growing global population. The price of copper has been fluctuating around the $2.90 per pound, down from its highs of $4.60 per pound in April 2011, though there are signs that the metal is staging a recovery.

Various hurdles have faltered copper production, torrential rains in Chile and protests in Indonesia, have all but added supply pressure that was already building from the start of the year. However, RBC Capital Markets forecasts that a surplus of 60,000 metric tons will be available in 2015, but the figure has been revised down from 139,000 metric tons. Leaving production problems to one side, copper mine supply is expected to grow around 5 percent as new mines are brought online. Beyond the risk of unexpected production losses, the fundamentals of the cooper market are generally bearish and with prices still above the marginal cost of production, due to fall in oil prices and a strong dollar, there is still probable room for downward slide.

The world usage was estimated to have fallen by circa 3.5 percent in January 2015, compared to the same period last year. China is, like with other commodities, the world's largest consumer of copper utilising around 45 percent of the world's copper production. However, the apparent Chinese demand declined by roughly 3.8 percent, which could be as a result of the housing sector in China, which uses 50 percent of China's copper usage according to Goldman Sachs. The drop in property prices will discourage housing start ups, and potential buyers may be hesitant to buy until prices have become stable, which as a result will have a negative impact on demand for white goods and appliances, all of which employ a great deal of copper.

Iron Ore

The price of iron ore has fallen by almost 50 percent in 2014 and another 30 percent so far this year, owing to production increases coinciding with a slowdown in Chinese economic growth. As of early April 2015, prices had dropped to below $50 per tonne from highs of $185 per tonne in the previous year.

Global steel production in Q1 of 2015 decreased by 1.8 percent, as a result of a 1.7 percent fall in Chinese output. China is growing at the slowest pace since 1990 and the demand for steel is forecasted to fall in 2015 and 2016, the first time since 1995. The Chinese hunger for steel declined by about 5 percent in the past 6 months from a year earlier, and the demand for iron ore in China (the world's largest buyer of the steel-making raw material), according to China Iron & Steel Association, is expected to remain weak as steel demand contracts.

The big miners (**BHP Billiton, Rio Tinto, FMG** and **Vale**) have remained focused on increasing productions to allow for lower production costs, ore supply is staying much in excess of demand making the prices unprofitable for a number of growing firms. Today's problem has its origins in pre-world financial crisis days when global miners overvalued China's future appetite for iron ore. The big four dedicated billions of dollars in new capacity development in expectation of China becoming a 1 billion tonne steel consumer, but that has failed to bear fruit. Supply has to fall short of demand to call upon firmer prices; however, low cost of iron ore production, due to the fall in global oil prices, meeting weaker demand will see continued low iron ore prices in 2015.

Gold
Gold, which might be considered as a currency and a hedge against inflation, has fallen by more than a third from $1,883 per ounce in August 2011 to $1,180 per ounce in March? PricewaterhouseCoopers has suggested that this is a result of an increase in the value of the USD and the expectation of increased interest rates in 2015 by the FED. The price of gold has suffered significantly over the last few years, yet the metal is continued to be amassed by central banks as a back up to the current currencies.

Gold was boosted in Q1 of 2015 by flight-to-quality demand in reaction to recent Middle East troubles and aggressive quantitative easing by numerous central banks. Despite this rise, gold has been outshone by the strength of the dollar and the expectation of higher interest rates in the US later this year.

China, together with India, accounts for 51 percent of demand for gold, where the former saw its seasonal demand for the yellow metal rise for the Lunar New Year. Demand in China in Q1 of 2015 rose by 1.1 percent and is forecasted to continue throughout 2015; a stark contrast to the 25 percent fall witnessed in 2014. Central banks remained net buyers of gold in 2014, with net holdings increasing to 477 tonnes in 2014, but speculation of sales by Russia emerged in Q4 of 2014 in order to stem the rapid depreciation of the rouble produced volatility in Q4 of 2014 and Q1 of 2015.

Lithium
Lithium carbonate is primarily used in lithium batteries, which accounted for 29 percent of lithium carbonate usage in 2014. The global demand for lithium carbonate increased by 10.57 percent year on year to roughly 144,400 tons in 2013, predominately driven by downstream demand, this drive will continue with an estimated average annual growth rate of around 10 percent over the next couple years, rising above 200,000 tons in 2017.

The development of the industries such as consumer electronics, grid energy storage, mobile base stations and uninterruptable power supplies will also stimulate the demand for lithium carbonate. However, the advancement of the electric vehicle established new requirements on lithium batteries, thus lithium carbonate and the demand has continued. In 2014, the demand for lithium carbonate from global electric vehicles approximated 10 percent of overall demand, and this is anticipated to hit 27 percent in 2017.

China is the world's second largest lithium resources state, taking up 26.92 percent of global reserves. The apparent consumption of lithium carbonate in China was 50,500 tons in 2013, with 27 percent imported, and is expected to reach 53,000 tons in 2014, with a degree of dependence on imported products falling slightly to 24 percent. The Chinese electric vehicle market has developed rapidly in 2014, with 33,206 vehicles sold in the first nine months, surging by 363 percent from the same period of 2013. The demand for lithium carbonate from electric vehicles in China will stand at around 2,000 tons in 2014, making up 3.9 percent of total demand. As the market size expands, the share for electric vehicle's demand for lithium carbonate is expected to rise by 13.6 percent to 2,272 tons in China in 2017.

Zinc
Zinc prices have been trading low in a downward path since August 2014, falling by 18 percent to a low of roughly $1981 per tonne from a high of $2416 per tonne in the summer of 2014. However, the prices are still above the prices witnessed from 2011 to 2013 which ranged from $1718 per tonne to $1811 per tonne.

There have been suggestions that supply will tighten considerably towards the end of 2015, a significant contributor to this is the closure of the Century mine in Australia, which has a capacity of 500,000 tonnes per year. However, there is no sign of a shortage at this moment, with the International Lead and Zinc Study Group forecasting a 470,000 tonne increase in mine output and a 430,000 increase in refined output in 2015, therefore, the loss of the Century mine will be fully felt mostly in 2016.

The study also showed that there was a supply deficit of 277,000 tonnes from January to October 2014, compared to 53,000 tonnes in the same period in 2013. Refined supply climbed by 3.8 percent, or some 406,000 tonnes, while the usage was 630,000 tonnes higher consisting of a 548,000 tonne increase in Chinese demand. Although the Chinese property market slowed, demand for galvanised steel is increasing with the output up by 15 percent in the first 10 months of 2014, this is due to the Chinese government planning to accelerate their $1 trillion infrastructure project, demand for galvanised steel and other metals are likely to remain well supported.

Tungsten

Tungsten is a metal with unique properties making it an essential component in many industrial applications. The tungsten market, like many other commodities listed, is not resistant to the overall weakening in prices of main industrial commodities. The benchmark Ammonium Para-Tungstate pricing fell further in the last few weeks and is currently trading around US$336 per metric ton unit, down 33 percent for the same period in 2014.

China is the world's largest consumer of tungsten at 48 percent in 2013. There could well be a worsening situation in the fundamental industrial demand on the back of slowing economic growth in China and visible fall in investment in mining, oil & gas. However, contrary to some industrial commodities, there does not seem to be a significant oversupply on the tungsten market. Like many other commodities, China accounts for 80 percent of the world's tungsten mine production and 48 percent of world consumption. Global tungsten demand has doubled since 2000, mainly driven by cemented carbides, steel alloys and chemicals; used for machining tough materials, aerospace and to reduce carboxylic acids to aldehydes, respectively.

Diamond

The diamond markets have been quite subdued and experienced low trading volumes for the most part of April 2015, dealers and manufacturers stated concerns about tight liquidity and low profit margins, thus the manufacturing and trading activity is expected to remain muted for the coming months.

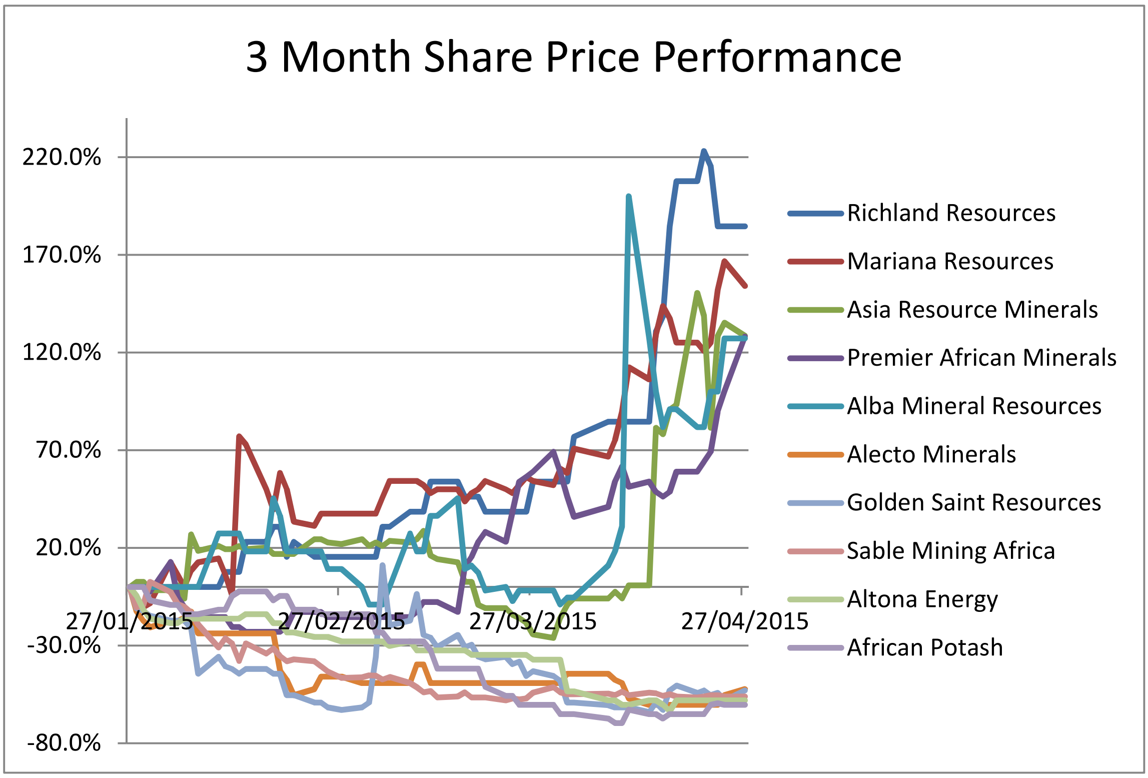
Trading in Israel is modest with many dealers and manufacturers retaining low inventory levels as rough prices are high and polished demand is weak. In India, trading is sluggish as the spring/summer vacation has begun. Many small and medium sized manufacturers have began to 'shut up shop' or reduce operating hours as they seek to avoid needless inventory build-up during the spring/summer vacation. Hong Kong has seen its polished trading activity to be quiet but stable as most prefer to hold their prices constant rather than sell aggressively at lower prices as they did previously. Suppliers are not in a rush to sell if the price is not right, but there is also no urgency to find finished products among buyers.

Reviewed by Darshan Patel

Risers and fallers

As at 27 April 2015	*3 month Share price movement*
Richland Resources	184.62%
Mariana Resources	154.17%
Asia Resource Minerals	128.57%
Premier African Minerals	128.21%
Alba Mineral Resources	84.69%
Alecto Minerals	(52.38%)
Golden Saint Resources	(53.09%)
Sable Mining Africa	(56.05%)
Altona Energy	(56.10%)
African Potash	(60.47%)

Source: Fidessa



Source Fidessa

Richland Resources (LON:RLD 4.625p/£10.05m 3mth +184.62%)

In February the gemstone producer announced that it had further reduced its operations in Tanzania following an on-going strategic review in order to focus on the redevelopment of the Capricorn Sapphire mine in Queensland, Australia. In April it was announced that pre-production mining had started at Sapphire, with a drilling programme underway to define pit design and layout as well as enabling mine scheduling, with Sapphire production targeted for May 2015.

Mariana Resources* (LON:MARL 3.1p/£23.3m 3mth +154.17%)

In its Q1 exploration and strategy update, the exploration and development company with projects in South America and Turkey; recapped on the bonanza grade discovery at Hot Maden in Turkey; its fundraising activities; and termination of the facility with Bergen. It highlighted that the main activity in Q2 would be the 10,000m drill programme at Hot Maden, but activity continues in Peru, Argentina and Nassau as well. In April Mariana announced that it had received notification from Teck Madencilik Sanayi Ticaret A.S. (Teck) that it had terminated its one-time back-in right at the Ergama gold-copper prospect, Balikesir Province, western Turkey. As a direct result of this notification, Mariana will regain 100% ownership of the 2,168 Ha Ergama property, with Teck retaining a 2% Net Smelter Revenue with respect to any future production from the property.

**Hybridan LLP is corporate broker to Mariana Resources*

Asia Resource Minerals (LON:ARMS 35p/£174.1m 3mth +128.57%)

During the period the operator of Indonesia's fifth largest coal producer embarked upon a recapitalisation and fund raising including a £68m open offer underwritten by NR Holdings (NRH) a trust of which The Hon Nathaniel Rothschild is the principal beneficiary. Also included was a material extension of duration and partial repayment of nearly $1bn of loan notes. In the light of these changes Amir Sambodo stepped down as CEO to be replaced by Hamish Tyrhitt. A long running FCA investigation into related party transactions for which the company had previously provided $7m was concluded and an undisclosed settlement was made. Bid speculation was prominent in April and there was an announcement of a possible cash offer to be made by a special purpose vehicle jointly owned and controlled by NRH and SUEK PLC to acquire the entire issued, and to be issued ordinary share capital of ARMS not already owned by the NR Concert Party.

Premier African Minerals (LON:PREM 2.475p/£14.6m 3mth +128.21%)

In February the multi-commodity natural resource company with mineral projects located in Southern and Western Africa, announced that it had signed an agreement for £1,000,000 (gross) zero coupon senior unsecured convertible loan notes to be issued to Darwin Strategic Limited. Also in February the company issued an exploration update on its Zimbabwe projects with the following highlights 1) Encouraging surface trenching results on the open pit at the RHA Tungsten Project 2) New assays of Zulu drill cores returned enhanced lithium grades 3) Reconnaissance sampling revealed tantalum mineralisation at Zulu pegmatite and 4) Trenching at Globe returned graphitic carbon grades with possible poly-metallic upside. The company also announced an initial 500 tonne of concentrate Tungsten off-take agreement and that construction for the Tungsten project remains on schedule.

Alba Mineral Resources (LON:ALBA 0.725p/£5.1m 3mth +84.69%)

The UK based Exploration Company raised £0.5m at 0.25p in an oversubscribed placing. Although involved in Uranium and base metal projects abroad news flow during the period focussed on its UK Oil and Gas assets. Alba holds a minority interest in Horse Hill 1, a well in the Weald Basin. One of the project partners, **UK Oil & Gas Investments PLC (LON: UKOG)** announced that US-based Nutech Ltd, one of the world's leading companies in petro physical analysis and reservoir intelligence, estimated that the Horse Hill-1 well in the Weald Basin has a total oil in place of 158 million barrels per square mile, excluding the previously reported Upper Portland Sandstone oil discovery.

Alecto Minerals (LON:ALO 0.15p/£1.6m 3mth -52.38%)

In February the mineral exploration company focussed on West and East Africa announced receipt of notice to terminate the joint venture agreement entered into between the Company and **Centamin** in September 2013 with regards to the development of the Company's licences in the Federal Democratic Republic of Ethiopia. Alecto will now hold 100% of the licenses. The Company's Board continues to believe in the prospectivity of the Licences and will actively seek a new partner for the continued exploration and advancement of the Licences. In March a Strategic Co-operation Agreement was signed with **Desert Gold Ventures Inc.** to develop the Kossanto East Gold Project and Farabantourou Gold Permit in Mali towards potential production and in April a nonJORC resource estimate was released for the Kerboulé Gold Project, Burkina Faso, of 6.2Mt grading at 1.16g/t Au for 230,758 oz Au, at a cut-off grade of 0.5g/t Au.

Golden Saint Resources (LON:GSR 0.245p/£2.7m 3mth -53.09%)

At the end of March the company announced a placing raising £450k gross at 0.15p per share. The highlights of operations in the period included the discovery of a 9.475 carat diamond in its bulk sampling programme in Tongo. The Company has also recovered approximately 3 to 4 grams of gold in the Tongo licence area and is now making modifications to the Explorer 1 which will enable it to recover higher quantities of any further gold discovered. It has recovered a total of 233 carats of diamonds during the first stage of its bulk sampling program in Baja. The diamonds are mainly white and a mixture of sizes up to two carat pieces. It is the Board's intention that the larger stones, providing a minimum of 0.5 carats per diamond, will be cut and polished and GIA certified, while the smaller ones will be sold either as rough or after being cut and polished.

Sable Mining Africa (LON:SBLM 0.86p/£11.8m 3mth -56.05%)

The resource company primarily focussed on the development of the Nimba Iron Ore Project in south-east Guinea saw its share price rise dramatically in January when a release by the Liberian government suggested that an iron ore transhipment deal was imminent. It was confirmed several days later that West Africa Exploration S.A. (WAE), its 80% subsidiary, had signed an Infrastructure Development Agreement with the Government of Liberia relating to the development, ownership rights, financing, use and operation of rail and port infrastructure in the Republic of Liberia necessary to facilitate the export of iron ore. The total anticipated investment in WAE's Mount Nimba project is valued at about $1.3bn over a twenty five year period. WAE/Sable Mining will invest $300M in the first 5 years of its initial program and thereafter 1bn in the remaining years of its operation. On 4th February the company released an updated JORC Code (2012) compliant Resource at 205.2 Mt an average in-situ grade of 57.8% iron ('Fe') from 181.8 'Mt' at an in-situ grade of 58.8% iron (announced 23 April 2014) - both estimated at a Fe cut-off of 40%.

Altona Energy (LON:ANR 0.45p/£3.6m 3mth -56.10%)

The company whose principal focus is on the evaluation and development of the Company's flagship coal-to-methanol, coal chemical and synthetic gas Arckaringa Project released interim results in March. During the period a JV was formed with partners contributing AU$33m. The company recorded a loss of £1.7m in the six months to December 2014. At the end of March an amendment to the JV agreement was announced with the main focus of the changes to the JV Agreement being to consider a move towards underground coal gasification. Pending the revised JV Agreement, the AUD$2 million invested by Wintask and Sino-Aus into the JV Company has been returned. In April Altona announced the resignation of Michael Zheng as Chief Executive and a director of the Company with effect from 17 April 2015. Mr. Zhang Qinfu, Executive Chairman will assume the additional responsibilities of Chief Executive.

African Potash (LON:AFPO 0.425p/£2.2m 3mth -60.47%)

Interim results were published in March highlighting the focus on the Lac Dinga Potash Project - an exploration licence in the Republic of Congo in one of the world's premier potash basins. The commercial potential of Lac Dinga was further demonstrated through the completion of a maiden drilling campaign which intersected uniform potash mineralisation in three laterally continuous horizons. The Group reported a loss attributable to equity shareholders of US$660,000 (2013: US$554,000). At 31 December 2014 cash balances were US$679,000 (30 June 2014: US$2,170,000). On 17 April a placing of £1.2m at 0.3p was announced with the funds to be applied to a) to redeem the outstanding convertible securities held by Bergen Opportunity

Fund, LP and b) to be used for the Group's ongoing working capital requirements.