

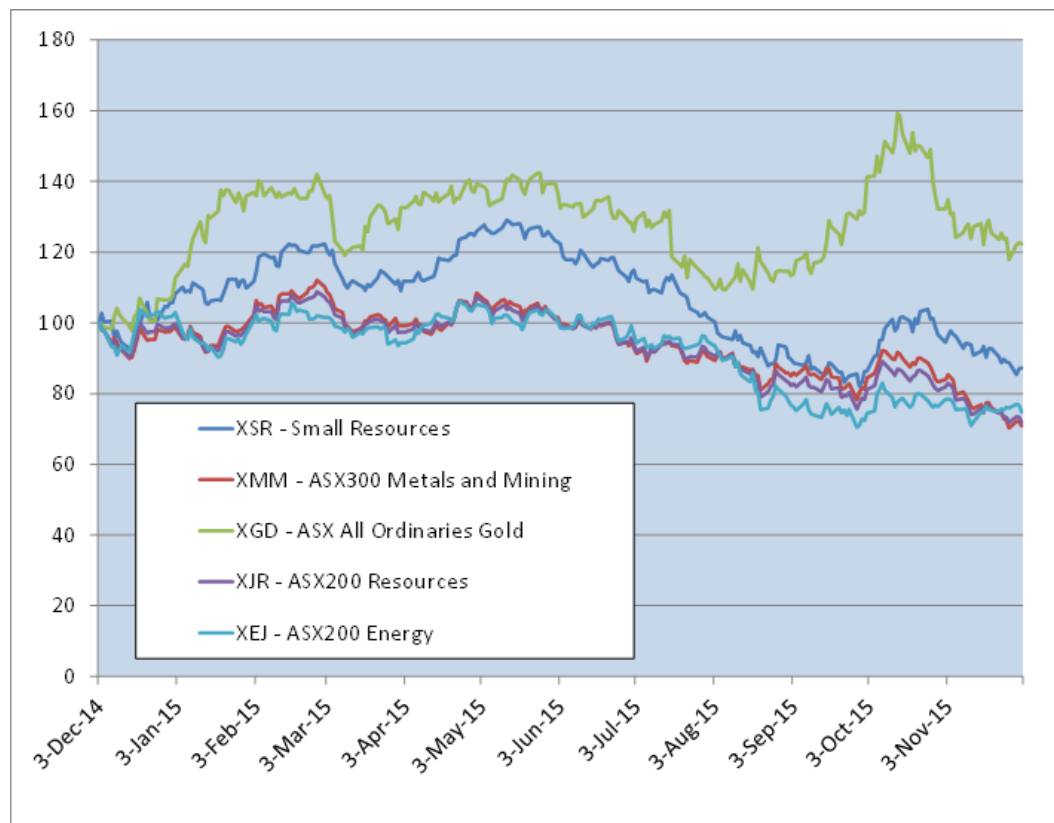
ONCE UPON A TIME IN 2015

2015, the Year in Review.

Warning for readers – some of what follows may be depressing – reader discretion is advised.

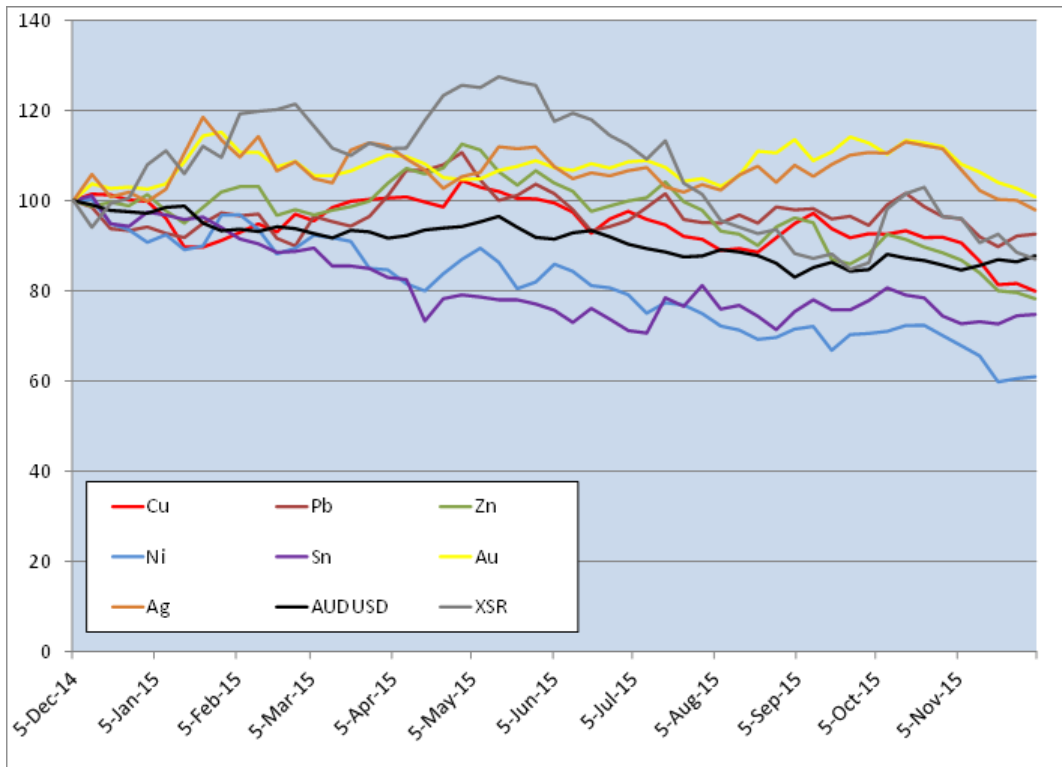
Maybe I'll set the tone with a few graphs. The first graph below shows the comparative performance of a number of resource related ASX indices over the last 12 months. With the exception of the gold index this is largely a tale of woe! The second and third are base and precious metals denominated in AUD and USD respectively.

ASX Indices



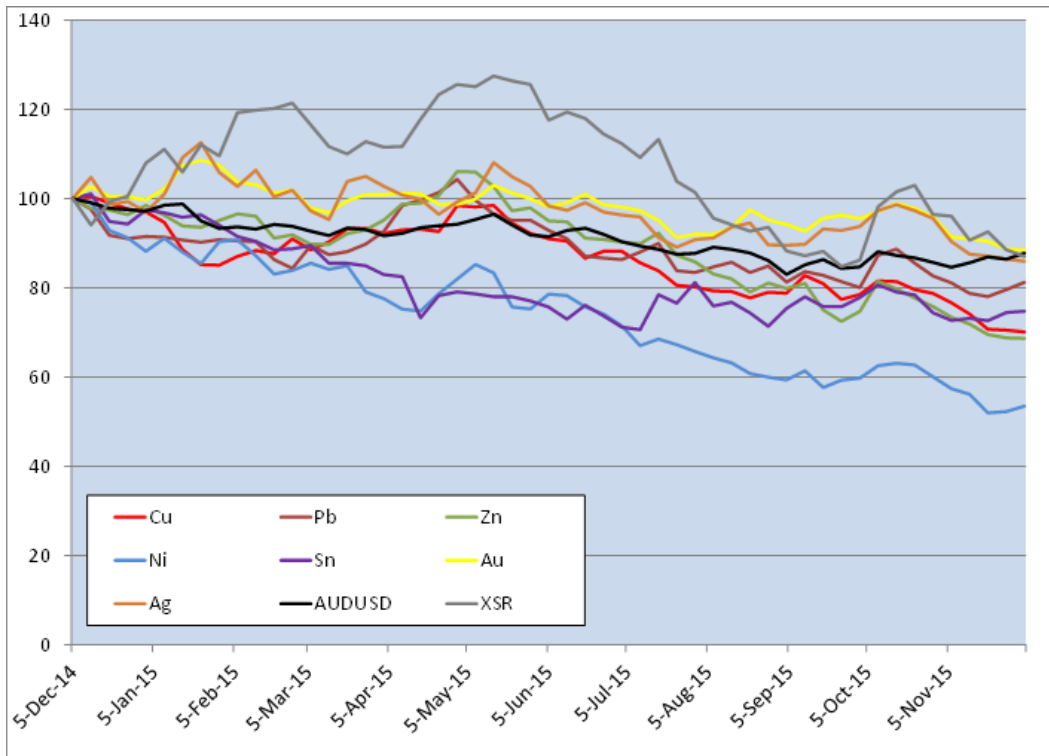
Source: IRESS

AUD Denominated Metals Prices



Source: IRESS

USD Denominated Metals Prices



Source: IRESS



The year actually got off to a bright start, led by the gold and small resources, and we were thinking, great, we reached bottom, and are now on the way up (and I won't have to apply for a taxi driver's licence after all). M & A activity was on the up, including the A\$1.8 billion merger of nickel companies Sirius and Independence, and various other acquisitions, largely in the gold space. This included the ever acquisitive Evolution's US\$550 million purchase of Lake Cowal from Barrick in May, which followed on from their acquisition of the Mungari operation in WA from La Mancha, which had an implied value of A\$413 million at the time of the deal in April.

I recall arriving at Symposium's Broken Hill conference on the morning that the Sirius/Independence deal was announced, and this setting a positive tone for the conference.

This sort of activity generally peaks at the tops and troughs of the cycle, so people were naturally thinking we must be near bottom....

Unfortunately not – it has largely been pear shaped since then, except for a late rally in the gold space, and some minor increases in base metals prices in late September. This included the great zinc boom of 2015, when, for a few weeks, everyone was talking about zinc. The year has been marked by falls across the board in USD denominated commodities, as shown in the graph above, and with nickel leading the way.

In Australia, however, this has been tempered by a 10% depreciation of the Pacific Peso against the greenback, with gold being the main beneficiary. Australian denominated gold prices are reasonably near all-time highs, and this, combined with falling costs, has made the gold space a relatively good one to be in.

However it is not all doom and gloom. As I have mentioned ad nauseam in previous columns companies with good stories (and management) are getting attention and there have been some stocks that have performed well despite the average markets. A few that spring to mind include Orinoco Gold and Pilbara Minerals. In the graphite space Ardiden, a newcomer with a Canadian project has also performed well.

Pilbara and Ardiden bring up a sector of the market that actually has got investors interest – the specialty metals and resources. With growing interest in the battery, alternative energy and advanced materials sectors resources like graphite, lithium, tantalum, vanadium and others are gaining more interest, and hopefully investor understanding. There still needs to be some investor education in some of these commodities however.

There are also any numbers of stocks out there that do deserve more attention and are not getting it. In looking through the companies I have written up in the past year it is hard to see one I still wouldn't support. Companies I have written up this year include:

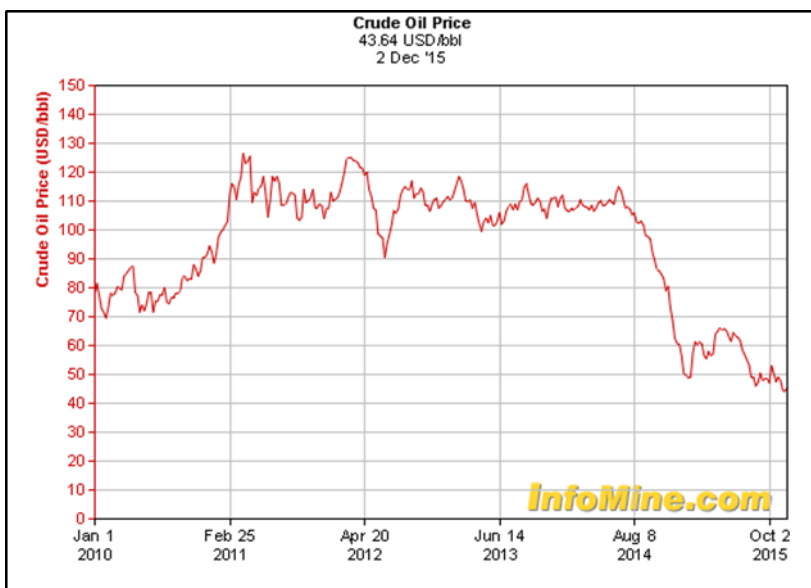
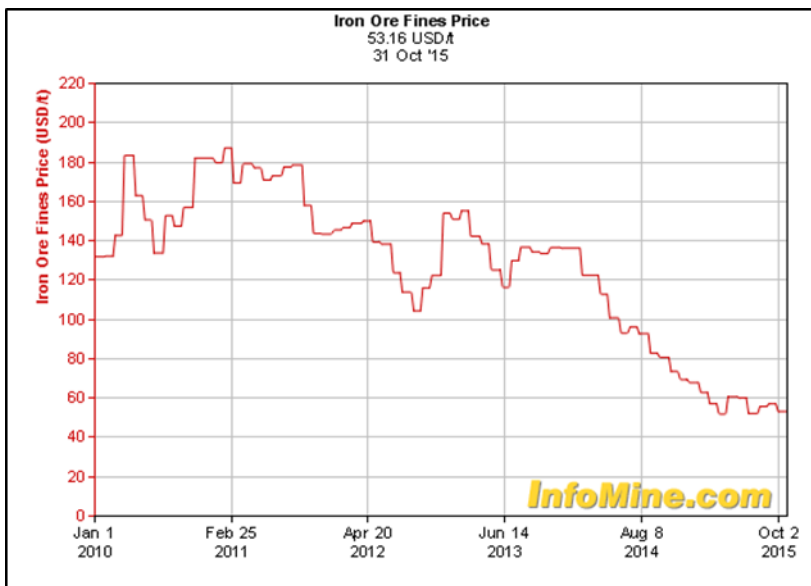
TNG Limited	Phoenix Copper
Sumatra Copper and Gold	Kibaran
Metallica Minerals	Carnavale
Avalon Minerals	Elysium Minerals
Ardiden	Transerv Energy
Orinoco Gold	Altech
Lincoln Minerals	Aurora Minerals
Thundelarra	Matsa Resources
Metalicity	St. George Mining
Rumble Resources	Legend Mining
Tyranna Resources	Orion Gold
Swala Energy	

There are a few others on the way.



More alert readers may have noticed that I haven't included the star performers – iron ore, coal and oil – in the above discussion. These are the commodities that have taken the greatest hits over recent years, and drive the main resources indices – XMM, XEJ and XJR, which have been the worst performers over the last year, all losing over 20% of their value.

Graphs of these commodities are given below – here I have used five year graphs so as the magnitude of the falls can be realised.



Not pretty pictures, are they? Iron ore is even worse than shown above – it is now close to US\$40/tonne.

It is these commodities that are making the news, and, especially in the case of iron ore, having a significant effect on Australia's export income. However the fall in the oil price is largely beneficial to miners (but not oil producers) in Australia, in that it is lowering costs – energy costs can be up to 30% or more of the operating costs of a mine. Also, the lowering iron ore price leads directly to lower steel prices, and hence again, lower, largely development costs (that is of course if you can get funding nowadays to develop an operation – capital markets are very, very tough).

So what does 2016 hold? This is a very difficult question to answer, as the price of a decent crystal ball is now beyond my reach, due to large increases in demand for them. Markets will continue to be tough for the "Big Three", with very unfavourable demand/supply dynamics. My view is the other commodities will continue to bump along the bottom for a while, until there is some impetus to get things moving again, which will be a general improvement in major economies.

The Soapbox



Well, there is plenty of stuff to write about from the lofty heights of the soapbox this year.

Maybe I will start from a dinner I was at the other night – this was the Sydney Mining Club's Christmas function at the Four Seasons in George Street. The special guests were Gina Rinehart and Garry Korte from Hancock Prospecting, who are now in the process of shipping the first ore from the 55mtpa Roy Hill iron operation.

They have done a fantastic job on this, and it has taken over 20 years from the first pegging of the leases (areas dropped by BHP) to production.

There have been a lot of detractors in the media and other parties, most of whom I think are jealous that someone has made, or will be making money.

This seems to be an Australian attitude – we seem to appreciate effort, but when that comes to fruition the tall poppy syndrome comes into play.

One of the things that Hancock has had to fight against is government regulation. Apparently there were over 4,000 separate permits required to get the Roy Hill operation up and running. In what way is this sensible?

Here are non-productive persons in government dictating to the private side, who stump up the money and take the risks. And by the way pay their bloody salaries.

There was a great analogy given – with the Melbourne Cup we have the only world class race that is handicapped – we get the best horse, load it up with so much weight that it doesn't stand much of a chance of winning, and then a rank outsider takes the prize. Seems to be a way we approach business in the country!

Also, a lot of our "political masters" (and I use the term loosely) are driven by short term politics, often to the detriment of good policy. They tend to listen to noisy minorities (generally do-gooders), whilst the rest of us get on with our productive lives. A good example I raised during the year was the race to the bottom in Victoria regarding onshore gas drilling.

The current State Government in their eternal wisdom has placed a moratorium on onshore gas drilling until some enquiry is finished (how to look like you are doing something without actually doing anything). The opposition, in a fit of sheer brilliance, made a statement that the moratorium should be extended.

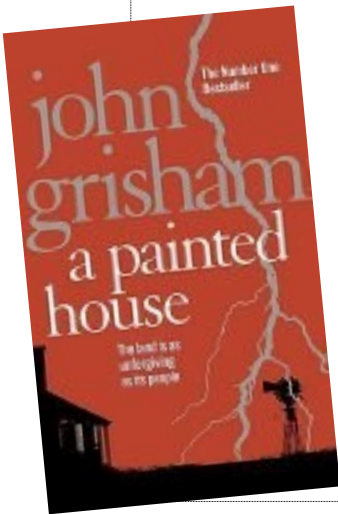
In NSW we are seeing similar sorts of enlightened decisions made with regards to the coal bed methane industry, and not to mention the "simplified" regulations for mineral exploration, which actually are more onerous. No wonder Australia's Fraser Institute rankings are falling.

Just a quick note to the politicians – we are going to need more natural gas in the future – where do you think this will come from?

This sort of rubbish is happening across the political spectrum, and partly driven by a rabid media. If you don't like the mining industry give up using all the products sourced from it. You will look funny living in a cave dressed in skins, and trying to tap your self-righteous ramblings into a piece of rock....

My Bookshelf

Something different this month – *A Painted House* by John Grisham. This is also different for John Grisham - there is not a lawyer in sight! A great story encapsulating the early 1950's in the cotton growing areas of Arkansas. It is set in Black Oak Arkansas, and portrays the cotton picking season through the eyes of a seven year old, Luke Chandler.



The story begins to unfold as Luke and his grandfather Eli, also known as Pappy, search for migrant workers to help them with the cotton picking. They initially consider themselves lucky to hire the Spruills, a family of "Hillbillies" and a few Mexican migrant workers who annually come to the area looking for work.

Grisham surrounds these dramatic moments with descriptive passages of life in the rural South and the ordinary events that fill Luke's weekly routine. His hard work in the fields is preceded by a hearty breakfast of eggs, ham, biscuits, and the one cup of coffee his mother allows him, and at day's end he's rewarded with an evening on the front porch, where the family gathers around the radio to listen to Harry Caray announce the St Louis Cardinals baseball games. A devoted fan, Luke is saving his hard-earned money to buy a team warm-up jacket he saw advertised in the Sears & Roebuck catalogue. Saturday afternoons are spent in town, where the adults share idle gossip and serious concerns and the youngsters visit the movie house, while Sunday morning is reserved for church. A visiting circus, the annual town picnic, and Luke's introduction to television - to see a live broadcast of a World Series game - are additional bits of local colour scattered throughout the tale.

This is well worth a read – it has the odd murder in it, but seems to encapsulate the time.

By the way John Grisham spent some of his early years nearby, and a few members of the southern rock band Black Oak Arkansas actually came from Black Oak Arkansas.

My Wishes for Christmas and 2016

An improvement in the markets – sort of possible
Sensible resources policy made by sensible politicians –
this is the comedy part of this column
Good health and a loving family – the most important
thing of all, and I look forward to seeing my 5 month old
grandson grow.

*I wish you all a Merry Christmas and a
Happy New Year.*

Cheers,

Mark