Written under AFSL: 259730
June 2nd, 2010
Issue 11, Vol 7

StockAnalysis

By Peter Strachan

This Week
In This Issue...

Indices & Prices

All Ordinaries	4,401.20
Energy Index	14,500.10
Brent AU$/bbl	86.76
AUS$/US$	0.8272

As at Close June 8th

In this Issue

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HUNGARY BITES THE MARKET: Who is next on the Sovereign debt wheel of misfortune?

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MARION: Is a maid in distress

COOPER: Active drilling by undervalued company

LAMBOUKA AGAIN!: Gulfsands likes it a lot!

MINEMAKERS: Persistence pays off. Stock looks very cheap

SIPA: STOP PRESS

RSPT – R.I.P.

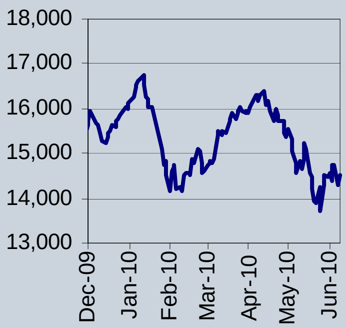
StockAnalysis predicts that the resources super profit tax (RSPT) will not go ahead. In the most likely case, the Labor government will lose the next election and the Liberals will undertake a review of royalty regimes in conjunction with the States, so that a profit based, resource rent tax can replace existing revenue based royalties. Royalties are counterproductive since they are paid by companies even if a mining project is unprofitable. An alternative reality is that PM Rudd will be rolled by his increasingly restive Cabinet and a newly installed leader in the form of Ms Gillard will be able to back away from the odious tax proposal, leaving the way open to go to the electorate in October with the motto of **"SORRY".** Either way the tax is dead and will not impact on the future earnings of Australian mining operations. My big call for today!

The share price of most ASX listed resource companies has now factored in any damage to value which would have ensued if the RSPT were to be in place post 2012. As previously outlined by StockAnalysis, companies that have been most severely hit have been those with new projects or expansion plans in the pipeline such as Exco, Tectonic, Independence Group, Western Areas, Fortescue, Sandfire, Havilah and CuDeco to name just a few, hence buying these companies now, along with the majors like Rio Tinto and BHP, would appear to hold little downside risk and a lot of upside when the tax is eventually and inevitably dropped or substantially reconstructed.

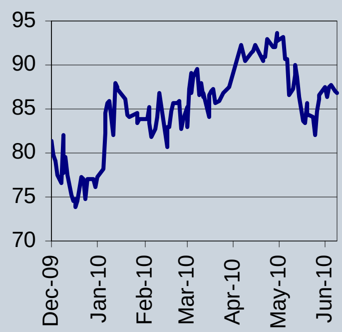
Any residual downside risk should now be totally due to sovereign debt and general economic growth issues as they impact commodity price outlook and not the RSPT.

All Ordinaries

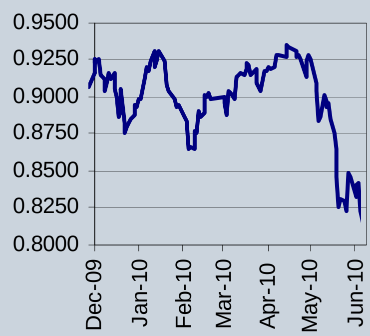
S&P ASX 200 Energy Index



Brent Crude Oil $A/barrel



A$/US$



Xstrata Hangs Tough (EXS)

Xstrata's move to mothball an underground extension of its Ernest Henry (EH) copper mine in Northern Queensland leaves Exco Resources holding on to plan 'A'. Plan 'B' relied on Xstrata moving to underground mining and seeking to supplement plant feed with ore from Exco's nearby project.

Given StockAnalysis' assumptions concerning the RSPT, Xstrata is likely to refocus on underground development at EH, leaving Exco firmly in the frame as a potential JV partner.

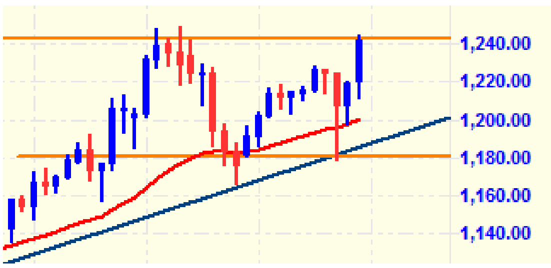
Europe's Pain not just in Spain

Now Hungary's sovereign debt position has begun to worry global markets, which has raised the question of who will be next. StockAnalysis is not convinced that Hungary's undoubted financial problems are as bad as has been portrayed by its incoming Finance Minister. I am inclined to the view that the country's newly installed government is throwing down the threat, pointing to the poor fiscal position which it has inherited as a way of easing its path for the introduction of more severe taxes and cost cutting measures. Hungary's communication technique was clumsy however and caused the market some confusion.

Issue of May 26th Looks Prescient

It was in late May 2007 that StockAnalysis blew the whistle on the debt fuelled bull market, just a few weeks before the US housing credit market hit the wall in July, which ultimately resulted in the demise of Lehman Brothers in late 2008. So it is a bit spooky that in its May 26th issue this year, StockAnalysis made calls on domestic house prices, interest rates and the gold price, which are starting to look like they might be getting close to the mark. Can I urge subscribers to log-on and re-read that section in the StockAnalysis issue from 26th of May 2010?

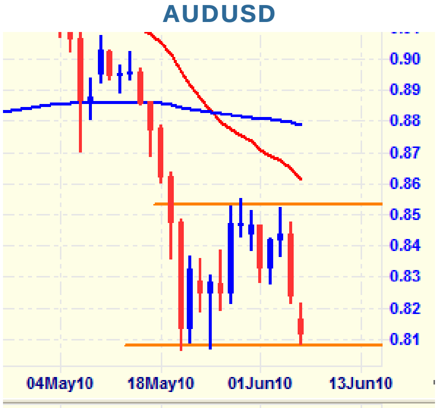
Gold USD / oz



Currently, the ASX All Ords is teetering on the brink and appears to have support at 4,290 and then at 4,190. A fall below 4,290 could set the market down to 4,100. Tuesday's recovery appears to be building a continuation pattern which would make this additional fall appear more likely, especially since larger overseas markets all appear to be in down trends. If the Dow Jones falls below 9,800 then a target of 9,300 is seen in the short term, which would be a further 5% decline.

The gold price is about to move into new high territory, breaking above US$1,250/oz and heading to $1,300/oz, while in AUD terms, a move back over its February 2009 highs of $1,559 appears highly likely, even though in AUD terms, the yellow metal looks a bit stretched in the short term.

AUDUSD



The AUD has fallen against a resurgent USD. A fall below 80.6 US cents would set up a downside target of 76 US cents.

Meanwhile base metal prices are all very much weaker, despite falling LME inventory levels. Perhaps we will see that supply of copper and nickel has been coming from Chinese stockpiles, when the trade numbers for May and June arrive in a few months time.

In the USA, the number of active oil and gas drill rigs has fallen by 29, or about 1.8%. Restrictions on deepwater drilling and the issue of new drilling permits will begin to impact on production over the medium term. Industry sources are saying that production will fall by 75,000 BOPD in 2011, but StockAnalysis thinks that delays to development at BHP's Mad Dog and Shenzi fields, plus other projects could result in far greater losses, closer to 200,000 BOPD by the end of 2011.

Who is to Blame for Oil Spills?

As a society consuming 86 million barrels of oil per day, all of us must ultimately share in a collective guilt associated with destruction of our natural environment by oilfield disasters. If no one wanted the valuable black gold found in the depths, then men would not be venturing out into dangerous waters, to drill wells in 2000m of water down a further 6 kilometres deep into formations that are hot and highly pressured in the search for oil.

As harsh as it may sound, the cost of oilfield disasters seen this year in the Gulf of Mexico and last year at the Montara project in the Timor Sea, represent a real and most likely ongoing cost of doing business. While there were undoubtedly mistakes made by operators in both cases leading to the disastrous oil spills, ultimately as a society we need to take stock of these occurrences and see them as an inescapable part of the oil extraction business. No matter how many safety checks are done and how many regulations are applied, there will always be human error and unplanned events in this high tech business.

The next question to ask ourselves is how much of the very same natural environment that sustains our life on earth can we afford to destroy in the search for fuel for our truck? As the world's population spins out of control from 6.8 billion today towards 9 billion by 2050, these are questions which are going to be increasingly top of mind.

Marion Energy Continues to Underperform (MAE)

Marion has been a huge disappointment to its shareholders. StockAnalysis has consistently recommended selling the stock since 2006, when it began predicting that it would be producing 20 mmcuft per day of gas from its Rocky Mountain permits. Ongoing technical problems and likely incompetence has led the company to a position of effective insolvency with unsupportable debt levels. Recent changes to management seem unlikely to resolve the situation, which is likely to see any remaining assets of the company become assets of its bankers.

Over the past four years, Marion has applied $22.8 million towards its administration function while its market capitalisation has contracted by $390 million. Clearly the company's management has not wanted for fiscal stimulus, but shareholders have cause to be concerned about the way this company has been run in the past.

Still, old habits die hard! The company is now miraculously predicting that it will be producing 15 mmcuft per day of gas from its project areas and that it now has coal seam gas potential on its permits. Given a poor history of achieving targets and a cash flow trail which shows how the company has been bled dry by its management function, StockAnalysis does not feel that subscribers should entrust their savings to the company and a sell recommendation remains.

Cooper Energy's Programme (COE)

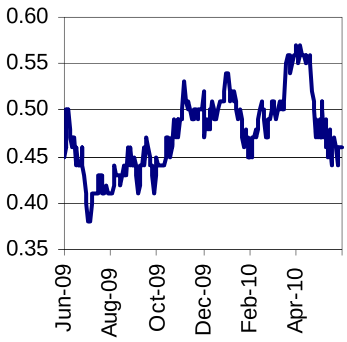
ASC Code	COE	
Shares	292.6	m.
Options	19.4	m. av 88 cts
Fully Diluted	312.0	m.
Price	$ 0.45	
Market Capitalisation	$ 132	m.
Cash (est post drilling)	$ 84	m.
EV	$ 48	m.

Recommendation: ***Cooper is a speculative Buy.***

Cooper's valuation is underpinned at 47 cps by residual cash and value for its Cooper Basin petroleum reserves. Risked exploration lifts the company's valuation to $1 per share. Ignoring cash, the company has a target value of 72 cps for its petroleum assets and risked exploration upside.

In previous editions, StockAnalysis highlighted upcoming drilling activity by Cooper Energy in permits both onshore and offshore Tunisia and onshore Indonesia. What is attractive is that the company is not a one hit wonder, since it has an active programme of work, where the inevitable dusters could be followed by success.

COE Price History



Fuschia, which should reach target depth by Friday 11th of June, has an estimated discovery value to Cooper of over 60 cents per share, based on a 46 mmbbl target, while the 100% owned, onshore Menzel Horr prospect would be worth over 90 cps in the event of discovery later this year. In early July, the company will test a small onshore gas prospect in Indonesia, where discovery of 32 Bcf of gas would be worth 5 cps for its 30% interest. In the Cooper Basin, operator Stuart has finally managed to get a rig onto the boggy ground to begin low risk field development drilling, where success will keep revenues up for both players.

Fuschia will be closely watched by AuDAX, not that its success or failure should technically influence drilling at Lambouka, but a discovery by Cooper is sure to boost hopes by its neighbours in the more northern permit.

Gulfsands Steps Up to the Plate For Lambouka Drilling (ADX, PAA, CAV, XST, GPX.L)

Captial Structure	
Code	**ADX**
Shares	337.4
Options	45.4 @ Av 27.6 ct
Price	$ 0.185
Market Cap	62
Cash (est) *	$ 7.0

** Post 1:6 issue*

Recommendation: *AuDAX is a speculative buy.*

Drilling by an AuDAX led consortium, including Gulfsands, Pharmaust, Carnivale and Xstate, has been boosted by Gulfsands Petroleum's decision to exercise its option for an additional 10% of the offshore project areas. Gulfsands initially signed up for a 20% interest. Having now had the benefit of analysing recent 3D seismic, the company likes the project even more and has agreed to sign up for the additional 10%!

Permits	ADX	PAA	CAV	GPX	Xstate
Lambouka	30%	10%	20%	30%	10%
Italian/Tunisian *	60%			30%	10%
Chorbane	50%			40%	10%

* GPX & Xstate hold options to increase by 10%

Well	mmBOE	Risk %	NPV $m	NPV /BOE
Lambouka	270	17%	2722	10
Sidi Daher	73	12%	950	13

Discovery Value/share $	ADX	PAA	CAV	GPX	XST
Lambouka	2.13	0.53	3.70	6.33	4.12
Sidi Daher	1.24			2.94	1.44

Leverage/share	ADX	PAA	CAV	GPX	XST
Lambouka	1153%	774%	1155%	138%	1528%
Sidi Daher	670%			64%	533%
	1824%	774%	1155%	202%	2060%

In using that exclamation mark, I must be under the influence of AuDAX, which must hold some sort of ASX record for the use of exclamation marks in its corporate presentations, consistently adding at least 3 excited exclamation marks to each of its corporate presentations.

Analysis of leverage to the projects by each partner shows that Xstate holds the most leverage and highest risk. XST is the vehicle where a lot of the smart money will be parked, ahead of drilling. ADX offers a more liquid exposure to the whole story while also offering exposure to ADX's other activities in Romania, where new permits are being acquired.

Minemakers (MAK)

Phosphate Rock to Feed a Hungry World

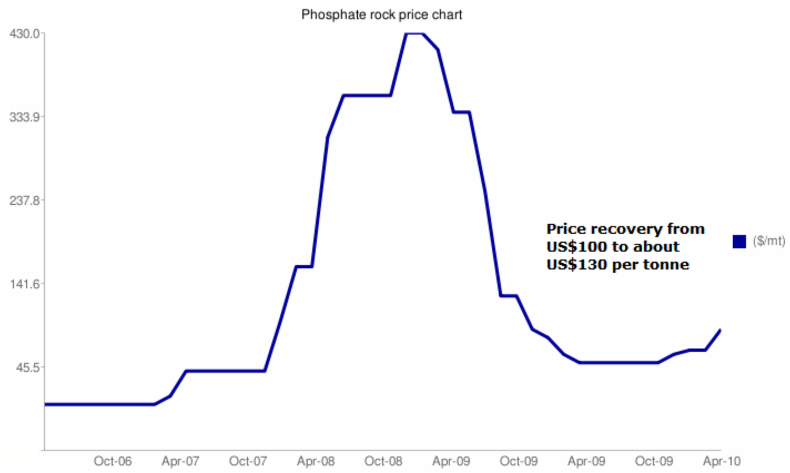
Code	**MAK**	
Shares	224	m.
Unlisted Options	18.4	m. Av 64 cts
Price	$ 0.24	
Market Cap'n	$ 54	m.
Cash (est)	$ 34	m.

Recommendation: ***Minemakers is a strong speculative buy at around 25 cents with an initial target of 36 cents and a longer term value objective of around $2 per share.***

The company is backed by a strong cash position of about 15 cps. MAK controls two vast deposits of rock phosphate in Australia's Northern Territory and in shallow waters offshore Namibia. The key to unlocking value for shareholders will be its ability to access finance. Rising phosphate prices combined with an ability to attract off-take and funding partners to support initial capital, should see the stock recover.

MAK Price History

Minemakers has completed a feasibility study to assess commercial potential of a direct shipping (DSO) rock phosphate ore project at its Wonarah project in Australia's Northern Territory. The company estimates that 15 mt of Indicated Resources grading 30.1% P_2O_5 will produce 9.4 mt of DSO ore grading 30% P_2O_5 and that a further 28 mt of Inferred Resources will translate into a further 17 mt of mineable Reserves, supporting a 10 year project life at production rates of up to 3 mt pa.



After a GFC induced plunge in the rock phosphate price from over US$400 to below $100 per tonne, its price has edged back up to US$134 per tonne on an FOB Morocco basis. StockAnalysis believes that the rock phosphate price will continue to recover to range between US$150 and $170/tonne by late 2011.

Morocco, China and Saudi Arabia dominate known resources of rock phosphate globally. The product is like oil in that it is mostly mined by government owned or controlled companies. Consumption in China is rising rapidly, so despite its large resource base, it should continue to be a net importer.

Minemakers should have a $25/tonne shipping cost advantage over Moroccan product, when selling to customers in the Pacific Basin. In the current market, MAK should be able to secure a price of US$150/t, FOB Darwin for its low impurity product. Globally, we see a growing shortage of phosphate fertiliser and an ever rising demand for the product to boost crop yields as the world's population continues to rise by about 80 million per annum from its current level of 6.8 billion. Over the past two to three years, the impact of high fertiliser prices, lower grain prices and a GFC induced credit squeeze has reduced fertiliser application. Moving into 2011, farmers will have little option but to add more fertiliser to their fields if they are to remain viable.

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The company plans to commence mining in the Northern Territory at 0.5 mt pa, ramping up to 3 mt pa within 3 years. Product will initially be trucked to a transport hub located north of the town of Tennant Creek, from where it will be railed to the Port of Darwin and loaded onto ships destined for customers in Asia. Longer term planning incorporates either a slurry pipeline to the rail hub from the Wonarah mine site or the construction of a rail spur, linking the Wonarah mine to a transport hub on the Adelaide to Darwin rail line. Eliminating the trucking leg is estimated to lower the ship loaded costs by about $30 per tonne.

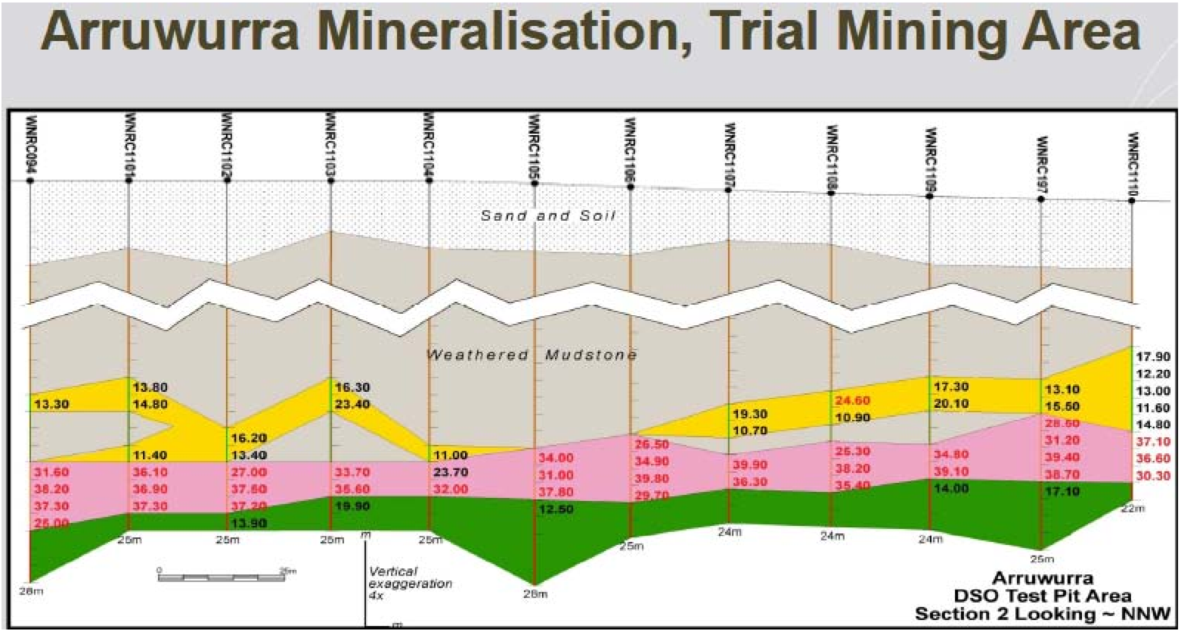
Minemakers Phosrock Resources

Deposit	Tonnes mt.	Grade % P_2O_5
Wonarah	404	21.0%
Sandpiper/Meob	765	18.8%

Source: Minemakers

Wonarah has a much larger Resource, amounting to over 400 million tonnes of mineralisation grading 21% P_2O_5 at a 15% cut-off grade which, with ongoing exploration efforts on the largely untested deposit, should support a long life operation of at least 100 years. The company has now embarked on a drilling campaign to bring some of its Inferred Resources into an Indicated status, so as to support a 10 year, DSO mining plan, which StockAnalysis believes is a lay-down misere.

Logging of drill core, backed up by a trial pit excavation, which was dug at the Arruwurra zone to produce large scale product samples for customer processing tests, shows that mineralisation occurs below about 15-25 metres of cover. A shallow, 1-4 metres of lower grade material, grading around 15% to 20% P_2O_5 directly overlies a flat lying 2-4 metre thick zone of DSO grade material, which can be mined at a head grade averaging 30% P_2O_5.



Longer term, the Wonarah mine will support a concentrating plant to upgrade run-of-mine product to a +30% P_2O_5 product for sale. StockAnalysis models the addition of a concentrator by 2020. The company is also undertaking desktop studies to examine the potential to use available gas at site or in Darwin to process the phosphate product to fertiliser for sale to farmers and wholesalers.

The company estimates a total start-up capital cost of A$215.5 million, which will be spent in two stages. This increased capex now includes additional costs for establishing and owning a transport hub north of Tennant Creek plus associated port handling capex, as well as the cost of leasing and operating rolling stock, instead of paying contract transport charges.

Minemakers estimates that a DSO project with a 10 year life will deliver a net present value of $256 million, which is five times the company's current market capitalisation. The project is expected to generate sales revenue of over $4.2 billion at a product price of US$150/tonne and operating cash flows are expected to total just over $1 billion with an attractive internal rate of return of 39%.

(Continued on page 7)

StockAnalysis runs a longer term model, assuming that a concentrator is added in year 9 and that the price of product rises at a modest 3% pa from year 3, while DSO incurs a 5% discount to high grade concentrate (which may be harsh treatment).

If a product price of US$150/tonne can be achieved initially, StockAnalysis estimates that the Wonarah project would be worth over A$750 million. After adjusting for additional equity, which will be required to support project financing, StockAnalysis estimates that this project alone should be worth about $1.92 per share for Minemakers.

Wonarah Project Economics

Sensitivity	Rock Phosphate Price $US/t		
	$110	**$150**	**$180**
EBITDA 2013 $m *	$9	$85	$214
NPV @ 8% pa	$60	$756	$1,277
IRR	14%	112%	>300%
Value per Share ^	$0.15	$1.92	$3.25

NB: price of P_2O_5 concentrate with DSO at 95%

^ assumed dilution

Source: Strachan Corporate Pty Ltd

The company is also progressing plans to dredge large tonnages of high grade phosphate mineralisation from the ocean floor, off the Namibian coast. MAK holds a 42.5% interest in the project and owns 15% of its JV partner in the project. While the Namibian project holds significant technical and product quality challenges, it is very large and has potential for low cost production of a saleable product. MAK's equity in Namibian Resources is estimated at 765 million tonnes grading 18% P_2O_5.

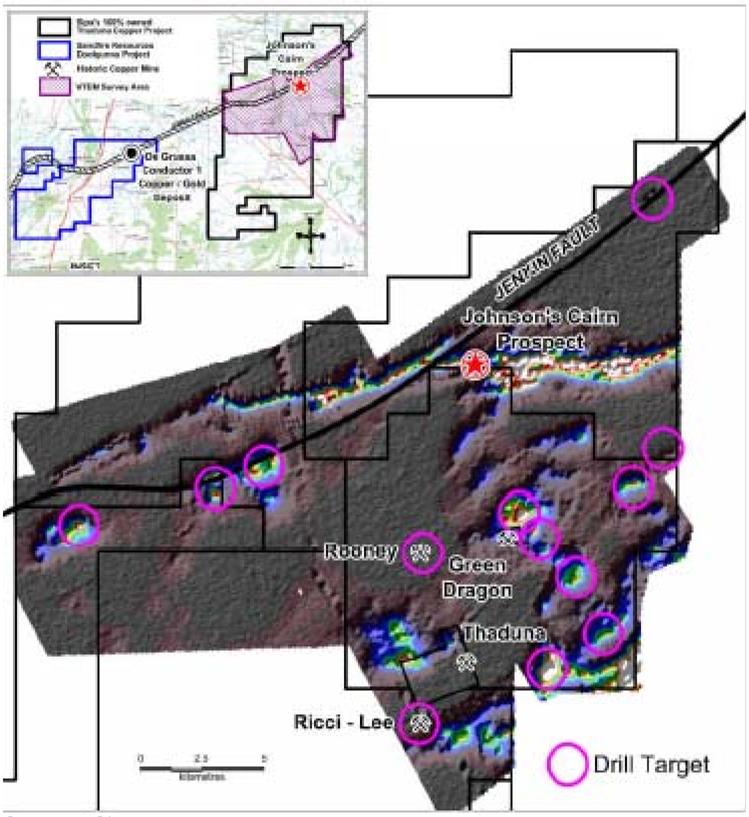
Minemakers' Estimates for Wonarah Project Economics

	Feasibility Study Base Case	Ten Year Operation Model
Mine Life	5 Years	10 Years
Net Revenue	$1,662M	$4,249M
Operating Costs, FOB Darwin	$128/tonne	$122/tonne
Capital Costs	$209M	$215M
Capital Costs per tonne	$23/tonne	$9/tonne
Net Cash Flow	$313M	$1,069M
NPV, Pre Tax	$142M	$446M
NPV, Post Tax	$83M	$256M
Discount Rate	8%	8%
IRR Pre Tax	39%	51%
IRR Post Tax	29%	39%

Source: Minemakers

Sipa Hits More Copper at Thaduna (SRI)

Thaduna Permits



Source: Sipa

Sipa is one of the most active gold and copper explorers on the ASX at the present time. It has active programmes along the Tropicana/Beachcomber trend at its Woodline gold project where drilling is scheduled this month and it is currently drilling at Tennant Creek in the NT for copper-gold bonanza zones and more importantly at Thaduna in WA, where it recently reported that its first RC drill hole hit two zones (7 and 3 metres) of malachite (copper oxide) mineralisation from depths of 92 and 102 metres respectively. This initial hole also hit some deeper graphite alteration from 198 metres, which is known from shallow drill holes to host supergene copper mineralisation at the Ricci Lee deposit, on the company's permits.

Capital Structure

ASX Code	**SRI**	
Shares	379.5	m.
Options	5.8	m.
Share Price	$ 0.085	
Market Cap	$ 32	m.
Cash (est)	$ 7.0	m.

What we learn from this information is that the region is deeply oxidised, at least to 60-80 metres depth and that fresh rock can be found at below 140 metres. Also, the presence of graphite presents some caution, since un-mineralised graphite will give a false VTEM signal just as well as mineralised graphite alteration.

(Continued on page 8)

This drilling follows a helicopter VTEM survey, which was the tool of choice used by Sipa's neighbour Sandfire Resources, in its quest to find the amazingly rich DeGrussa copper gold deposit. Sipa has the benefit of using the same geophysical consultants as have worked next door, so when they see a VTEM signature and recommend drilling, you know that it looks like something they have seen before!

Sipa has reported that another of its drill holes at Thaduna has made a visual copper mineralisation intersection and hand-held assay equipment has enabled a field assay to reveal its grade. So far we don't know the length or grade of Sipa's strike, but on Friday all will be revealed.

It is very early days for Sipa at Thaduna, but what we know is that there is copper mineralisation on its permits and that the VTEM tool is working. Comparison with the +$400 million market capitalisation Sandfire Resources is dangerous, since Sandfire has spent an estimated $10 million on drilling to outline its initial 7 mt Resource, containing over 300 Kt of copper and over 300 Koz of gold in high grade ore, but still, Sipa with a market capitalisation of about $32 million, will look attractive if it can begin to emulate its larger neighbour.

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The author has small holdings in shares of BRU, SRI. Modest holdings in ABC, ADX, ROC, NMS, OEL, OSH, CWP, NXS, UXC, MGR, COF, PAG, SUN, COE, HZN, RCR, TAP, AWE, TLS, PTM, WPL, & GLH and larger holdings in ACE, HAV.