



Gold



Lead



Copper



Platinum



Nickel



Iron



Aluminium



Zinc



Silver

BOOM, BUBBLE OR BUST?

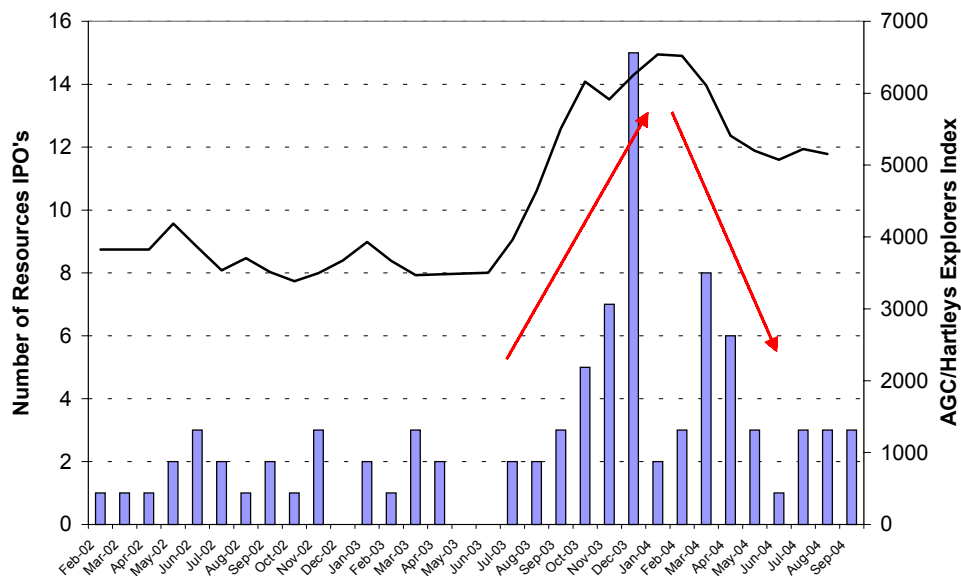
Since the top of the market earlier this year there has been a swing in market sentiment away from resources – share prices have been under pressure, and no longer is fresh capital freely available for mining stocks. This has been especially true for the junior sector.

In this issue, we have focussed on this recent change in market sentiment, and seek to identify the drivers that could influence the direction of the market in the near term.

THE FLOW OF FUNDS

A good measure of market sentiment – and hence an indicator of the stage of the equity markets cycle – is the availability of capital to market participants. One way to show this is with the number of successful IPO's. As the chart below shows, beginning late last year, pretty much anything to do with mining could list. Old projects were recycled, companies were successfully spinning off non-core tenements and others could get away with not much more than a promise. The chart also shows that this market has dried up.

Australian resources sector IPO's by month against the AGC/Hartleys Explorers Index



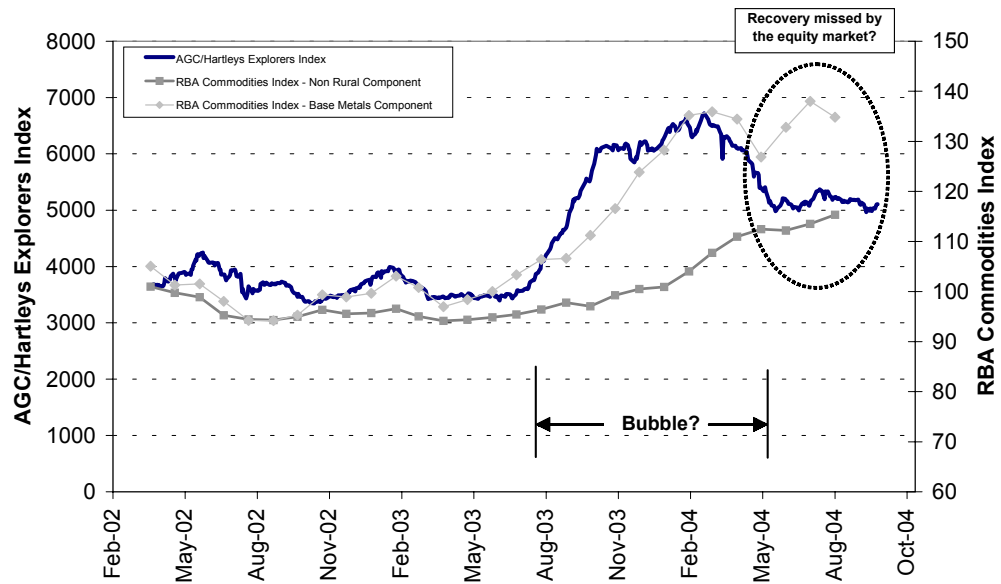
Source: AGC/Hartleys and various Company Reports. Compiled by RFC.

THE JUNIOR MARKET – NOT PROPERLY REFLECTING COMMODITES?

Below we have charted the Australian Gold Council / Hartleys Explorers Index. The chart clearly demonstrates the rush to resources late last year, and just as clearly, the rush from resources over the past 3 months.

We have overlain this index with the RBA Index of Commodity Prices (Non Rural Component) and its subset Base Metals Component for the same period to highlight the relationship the junior resources equity markets have with commodity prices. In recent months this relationship appears to have been broken, with a resurgence in commodity prices not being translated to the equity markets.

AGC/Hartleys Explorers Index vs RBA Index of Commodity Prices



Source: AGC/Hartleys and the RBA, Compiled by RFC

THE DRIVERS

While the outlook for the junior market is uncertain, we believe there are a number of factors that suggest there is petrol left in the tank for a rally later this year:

- Commodity prices are again increasing, and based on the historical relationship above, this suggests that the junior market is currently oversold.
- The bulk commodities have not even paused to take a breather – iron ore, manganese, coal, etc are all still strong.
- The Australian mining industry has had an outstanding FY04, and that the reporting has been full of strong profits.
- Historically, the Explorer's Index shows a yearly cycle, with the upturn generally between September – December.
- The equity raisings completed late last year and early this year will soon start to be translated into exploration results – and hopefully success.
- The 'good' stories are already funded – no requirements for additional capital in the near term may lead to a scarcity of available stock.

THE CAVEATS

Of course, we temper this outlook by saying:

- It could be that commodity prices are due for a downwards correction.
- Equity is extremely difficult to come by at the moment, suggesting that for now at least, risk capital for the mining sector has dried up. This is true not only in the Australian market, but also in London and Toronto.
- While the Explorer's Index has retracted over 20% since its January high, it is still some 40% above its September 2003 levels. This could mean there is a long way to fall yet.

The Alchemist

DISCLAIMER

RFC Corporate Finance Ltd ("RFC") has prepared this note to provide general commentary and analysis to professional investors on selected resource companies, securities and markets.

No part of this report is to be construed as a solicitation, offer or invitation to buy or sell any security and should not be relied upon in connection with any contract or commitment whatsoever.

RFC prepared this report without taking into account the objectives, financial situation or needs of any person. Before making an investment decision or otherwise acting on the basis of this report you should consult with a professional investment adviser to consider the appropriateness of the advice, having regard to your objectives, financial situation and/or needs.

This report is based on publicly available information. Although the information contained in this report has been obtained from sources believed to be reliable and accurate, its accuracy, reliability or completeness has not been verified by RFC and is not guaranteed.

Opinions, conclusions, assumptions, estimates, reflections, forward looking statements and forecasts referred to in this report are those of RFC alone and not those of the companies referred to in this report and these companies do not endorse this report. Opinions expressed reflect RFC's judgement at the date of this report and may change without notice. Forecasts of commodity prices, interest rates, exchange rates and economic growth are subject to significant change. No representation or assurance is given that any prediction, projection or forecast contained in this report will be achieved.

RFC and its related bodies corporate or any of their associates, officers or employees may have interests in securities referred to in this report and may hold directorships in or provide corporate finance or other services to the companies referred to in this report. Further, they may buy or sell securities of the companies referred to in this report as principal or agent, and as such may effect transactions which are not consistent with any opinions contained in this report.

Use of the information in this report is at your own risk. RFC is not responsible for any adverse consequences arising out of the use of this report. To the extent permitted by law, RFC accepts no responsibility for damages or loss relating in any way to any errors or omissions in any information or opinions provided in this report, whether arising from negligence or otherwise from the use of or reliance on this report.

This report is intended to be, and is only, published and distributed in Australia and is not to be read or relied upon by any person situated outside of Australia.

RFC Corporate Finance Ltd is the holder of AFSL 233214.