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Natural Resources

September 2015

EVOLUTION MINING SEEKS TO OUTBID ZIJIN TO ACQUIRE PHOENIX

ASX-listed Evolution Mining Ltd (**Evolution**) has made a takeover offer (**Evolution Offer**) for fellow ASX-listed Phoenix Gold Limited (**Phoenix**), providing Phoenix's shareholders with an alternative to the offer made by Zijin Mining Group Ltd (**Zijin** and **Zijin Offer**). Evolution currently holds a 19.8% share in Phoenix. The Evolution Offer valued Phoenix's shares at AU\$0.12 each or AU\$56.4 million in total which according to Evolution represents a 20% premium to Zijin Offer. The Zijin Offer was conditional upon Zijin securing at least a 50.1% stake in Phoenix. The Zijin Offer was first submitted in early August 2015 and re-submitted with amendments on 18 August 2015. Evolution is expected to submit its own updated offer by mid-September 2015, which is expected to be subject to a limited number of conditions. Phoenix had provisionally instructed its shareholders not to take any action regarding the Evolution Offer until it has been considered by Phoenix's board. (Source: <http://www.miningweekly.com/article/evolution-seeks-to-outbid-zijin-to-acquire-phoenix-2015-08-20>, 20 August 2015)

RIO TINTO CONSIDERS COPPER VENTURE WITH CHINESE COMPANY

Rio Tinto Plc, the world's second-largest producer of iron ore, has announced that it plans to form a joint venture with a Chinese exploration company to improve its position in China's copper market. The new company will explore the Oyutolgoi mine located in Mongolia. The Anglo-Australian Mining and Resource Group (**AMMRG**) has also reached an agreement with the Mongolian government in relation to exploration rights at the copper-gold deposits in Oyutolgoi, 80 kilometres north of the Mongolia-China border. Oyutolgoi is the world's largest copper-gold deposits with a copper resource of approximately

15.9 million metric tons and a gold resource of approximately 11 million ounces. AMMRG has been attempting to diversify its business in order to reduce its reliance on coal. It has shifted its exploration focus to other minerals such as copper and aluminium. China's copper-gold mining resources are scarce, with some low-quality copper-gold deposits in Anhui, Yunnan and Jiangxi provinces. At present, China's copper market is heavily import-reliant. The name of the Chinese exploration company has not yet been released. (Source: <http://www.ecns.cn/business/2015/08-21/178131.shtml>, 21 August 2015)

LME ANNOUNCES PLANS FOR 'MARKET MAKING' PROGRAMMES

The London Metal Exchange (**LME**) has announced that it will introduce market making programmes for copper, aluminium and zinc to support the launch of new products and enhance liquidity on existing contracts. The programmes are the first of their kind to be introduced by the LME in its 138-year history. The LME describes a 'market maker' as a broker who is willing, but not obliged, to quote both buying and selling prices to other members or clients (**Market Makers**). Under the new programmes Market Makers will be eligible to receive a full rebate of all trading and clearing fees charged by LME for contracts resulting from the Market Maker's activities, together with a monthly stipend for each programme to aid technology and personnel costs. Trading and clearing fee rebates will apply to all trades which form part of the market making activities from 1 October 2015. The programmes will provide Market Makers for the LME's forthcoming aluminium premium contract and two new ferrous contracts – steel scrap and steel rebar – which will be launched on 23 November 2015. From January 2016, the new contracts will trade on a competitively priced fee schedule. Parties are invited to submit their proposals by 8 September 2015 for the 'third Wednesday

contracts', and by 30 September 2015 for the premium and ferrous contracts. The programmes and new products are subject to final regulatory approval from the Financial Conduct Authority and rule change consultations for the LME. (Source: <http://lme.com/news-and-events/press-releases/press-releases/2015/08/lme-announces-plans-for-market-making-programmes/>, 20 August 2015)

RUSSIA'S NOVATEK SELLS 10% IN YAMAL TO CHINESE FUND

Russia's second biggest gas producer OAO Novatek (**Novatek**) is reportedly selling its 9.9% stake, worth an estimated US\$900 million, in its Yamal liquefied natural gas project to a Chinese investment fund (reported to be Silk Road Fund). The sale is aimed at helping Novatek to line up project financing from Chinese banks after sanctions froze Russian companies out of capital markets in Europe and the U.S. In 2014, China announced that it would contribute US\$40 billion to establish the Silk Road Fund to improve transport links across Asia. The fund made its first acquisition in April 2015 when it invested US\$125 million in a Chinese company developing energy projects in Pakistan. (Source: http://www.rigzone.com/news/oil_gas/a/140261/Russias_Novatek_to_Sell_10_in_Yamal_to_Chinese_Fund, 24 August 2015)

NEW DRILLING AT MONGOLIAN PROJECT

Erdene Resource Development Corp. (**Erdene**) has commenced a definition and expansion diamond drilling programme at its Altan Nar Gold-Polymetallic Project in southwest Mongolia. The drilling was commenced on 7 August 2015, with results to be expected before the end of 2015. The focus of the programme will be infill drilling at Union North (**UN**) and Discovery Zone (**DZ**) to increase confidence in the high-grade, near-surface zones, and test several new targets outside the initial resource area to provide future growth potential. On 31 March 2015, Erdene announced an initial NI 43-101 compliant mineral resource estimate for DZ and UN, which are the most advanced of the 18 target areas identified along the 5.6km long Altan Nar mineralized corridor. The sites have a combined indicated gold resources of 147,000 ounces and inferred resources of 102,000 ounces. Erdene operates in partnership with Teck Resources Ltd in assessing regional base and precious metal opportunities in southwest Mongolia's emerging Tian Shan copper-gold belt. (Source: <http://www.asiaminer.com/news/latest-news/7094-new-drilling-at-mongolian-project.html>, 18 August 2015)

CHINA AND RUSSIA TO CREATE OWN GOLD MARKET

As gold prices continue to demonstrate volatility, China and Russia are moving forward with plans to establish their own gold market which will function outside the dollar system. The Commodity Exchange Inc., the gold futures market in New York and the over-the-counter trades cleared through the London Bullion Market Association set prices which are followed widely around the world. China's new "Silk Road" economic development plan and the US\$16 billion gold investment fund launched in May 2015 are reported to be part of the plan to increase China's gold holdings at the expense of the U.S. dollar. The aim is to enable Eurasian countries to increase the gold backing of their currencies. In June 2015, the People's Bank of China reported that China's gold reserves stood at 1,658 tonnes, which represents an increase by more than 600 tonnes from the previous figure released in April 2009. Updated figures show Chinese gold reserves increased by 1.1% during July 2015 to 1,677 tonnes. (Source: <http://www.mining.com/china-russia-creating-own-gold-market/>, 16 August 2015)

MOST CHINESE RARE EARTH MINERS RUNNING AT A LOSS

Rare earth prices are continuing to decline due to overcapacity and illegal mining in the rare earths sector. According to the Association of China Rare Earth Industry, approximately 90% of China's rare earth producers are operating at a loss. The situation has affected market leaders and small scale suppliers equally. Xiamen Tungsten Co Ltd.'s rare earth business has seen its year-on-year losses increase by US\$8.8 million. Guangdong Rising Nonferrous Metal Co. Ltd expects its year-on-year losses to increase by 600%. Investment confidence has been badly hit by the poor performances of the two major producers outside China — Molycorp Inc. and Lynas Corporation Ltd. Market observers report that prices for the 17 most sought-after rare earths should start improving before the end of 2016, although they have warned that excess supply could put downward pressure on the market. As China continues to restrict the number of firms it allows to produce and export rare earths, a significant supply bottleneck has encouraged smuggling as well as illegal production. (Source: <http://www.mining.com/most-chinese-rare-earth-miners-running-at-a-loss-report/>, 12 August 2015)

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