

# BEHRE DOLBEAR

## Global Mining News

### ICBC, STANDARD BANK AGREE ON \$1 BLN RESOURCE FUND

March 16, 2008 (Reuters) – Industrial and Commercial Bank of China has signed a final agreement with South Africa's Standard Bank to jointly set up a \$1 billion global resource fund, a person familiar with the matter said.

A formal announcement on the deal would be made by the biggest Chinese lender as early as this week, the source, who asked not to be identified, told Reuters.

State-run ICBC, which recently bought a 20 percent stake in Standard Bank for about \$5.5 billion, was not immediately available for comments.

Standard Bank said in October that it and ICBC were discussing the launch of a global resource fund with a targeted size of \$1 billion. The fund would focus on opportunities in Africa and China, specifically in the junior mining and energy sectors. It said early this month that they were finalising the terms of the fund in which each would invest \$200 million with the remainder made up of third-party funding.

China is trying to boost its investment in the overseas resources sector as its demand for energy and metals surges amid a booming economy.

Chinese aluminium giant Chinalco, parent of Chalco, recently led a \$14 billion stake investment in global miner Rio Tinto.

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USD	MARCH 21, 2008	MARCH 14, 2008
GOLD	958.50	1,003.5
SILVER	19.8800	20.4100
PLATINUM	1,890.00	2,107.00
PALLADIUM	464.00	512.00
ALUMINUM	1.2528	1.4098
COPPER	3.5330	3.9059
LEAD	1.2020	1.4111
NICKEL	12.8299	14.8098
URANIUM	74.00 (03/17/08)	74.00 (03/10/08)
ZINC	1.0251	1.1725

## CHINA LOCKS OUT BHP BILLITON, RIO TINTO IRON ORE – REPORT

March 17, 2008 (*Thomson Financial*) – Australia's largest miners BHP Billiton Ltd and Rio Tinto Ltd have been banned from selling iron ore in China, The Sydney Morning Herald reported Tuesday.

"Neither BHP Billiton nor Rio Tinto have been able to send a single spot shipment into China since January 1," the newspaper said, citing an unnamed executive who works for one of the two miners.

The boycott is being orchestrated by industry arms of the Chinese government and may have already cost Australia 300 million Australian dollars in export profits, the report said.

The article said no other companies have been blacklisted and spot market shipments continue to flow in from Australia's OneSteel Ltd, and companies from India and Iran.

## SINOSTEEL'S BID FOR MIDWEST TURNS HOSTILE

March 17, 2008 (*Finance Asia*) – China's Sinosteel takes its \$1.12 billion offer for the Australian mining company direct to shareholders in a deal that reflects China's hunger to secure raw materials. China's Sinosteel is offering Midwest shareholders A\$5.60 per share in the first hostile bid by a Chinese company in Australia. At that price, it is placing an equity value of A\$1.2 billion (\$1.12 billion) on the Australian iron ore company. Sinosteel's bid for Midwest has been approved by Australia's Foreign Investment Review Board.

The offer price represents a 35% premium to the last traded price of Midwest on March 13 and an 80% premium to the volume-weighted average price for the one-month period prior to the bid for Midwest by Murchison Metals. Export-Import Bank of China will be providing the debt to fund Sinosteel's offer.

Significantly, Sinosteel's offer is not subject to customary due diligence. In an ASX filing, Midwest wrote that Sinosteel has not undertaken due diligence, despite access

to a data room being offered, because the Chinese firm would not agree standard commercial requirements regarding non-disclosure and standstill provisions with respect to increasing its stake in Midwest. But specialists comment that extending negotiations over confidentiality and other agreements can be used as a tactic by the sell-side to prolong discussions and try to extract a better offer out of the buy-side.

Sinosteel also disclosed in its filing with the Australian Securities Exchange (ASX) on Friday that it currently owns 19.89% of Midwest, making it the largest shareholder of the Australian company. The offer is subject to a minimum acceptance level of 50.1%, which means Sinosteel only needs another 30% of Midwest's outstanding shares to be successful.

Sinosteel is a state-owned enterprise in China which is primarily a commodities trader. It has been working with Midwest on developing its new mines.

## MANGANESE A QUIET ACHIEVER IN THE IRON BOOM, BUT THE NOISE IS ABOUT TO START

March 17, 2008 (*The Age*) – The demand and price surge for iron ore in response to the annual global production of steel climbing to more than 1 billion tonnes for the first time is well understood. Not so well understood is that it takes more than iron ore to make steel and that in many cases, the demand and price performance of the metals that give the full range of steel products their special properties has been as good, if not better.

Manganese is a case in point. It has gone ballistic thanks to increasingly tight supply/demand fundamentals, with power shortages in South Africa being the latest scare for steel makers who, on average, consume about

6 kilograms of the stuff for each tonne of carbon steel they produce.

Compared with the iron ore market, the seaborne trade in manganese is tiny – about 16 million tonnes a year – but mining the stuff can be hugely profitable. BHP Billiton supplies about 15% of the world's total supply and in the December half-year, booked an underlying earnings before interest and tax result from the business of \$US431 million. Australia has two other producers – Consolidated Minerals and OM Holdings.

Ukrainian billionaire Gennadiy Bogolyubov saw what was coming and outbid everyone for ownership of ConsMin earlier this year. He ended up paying \$1.3 billion – more than double the opening \$625 million bid from Brian Gilbertson's equity house Pallinghurst.

Bogolyubov got a bargain. Since the takeover, contract prices secured by BHP for manganese ore have rocketed from \$US2.70 a metric tonne unit in 2007 to a heady

\$US11.20/mtu. That is why OM's market capitalisation has grown hand over fist to more than \$600 million.

All that is very interesting, but the manganese boom is still not a headline grabber. Garimpeiro's tip is that it won't be quiet for much longer, with punters set to turn their attention to the clutch of manganese explorers that offer leveraged exposure to the boom.

## RIO TINTO REPORT SAYS DEMAND FOR MAIN PRODUCT GROUPS COULD TRIPLE

*March 17, 2008 (Reuters)* – Global miner Rio Tinto Ltd/Plc downplayed the impact of mounting U.S. economic turmoil on its businesses, forecasting strong demand for its main revenue earners led by a commodities boom in China.

In its 2007 annual report, Rio also reiterated its opposition to a \$147 billion tie-up proposal by larger rival BHP Billiton Ltd that could create a super mining house with powerful sway over global supplies of minerals.

Rio, the world's biggest aluminium maker and a top supplier of iron ore, copper and other industrial staples, said it was premature to say the price cycle for its products had peaked, though it was mindful of short term risks of an expected slowdown in the U.S. economy.

"However, the U.S. is now somewhat less important in world commodity demand than it was five years ago,"

Rio's chairman, Paul Skinner, said in the report. "Projections for Rio Tinto's main product groups iron ore, – aluminium and copper – suggest that demand could potentially triple over the next 25 years," Skinner said.

"In the short term, with low commodity stocks and a likely continuation of supply side challenges, we expect solid global economic growth, led by China, to support strong increases in demand for most metals and minerals during 2008 and 2009," Skinner said. He said he continued to view BHP's offer as undervaluing the company and its prospects for growth.

Rio, BHP and other miners have largely pinned future earnings growth on China's economic boom, given its standing as the world's top importer of iron ore, copper and other minerals and metals.

## MINING DEALS WILL HIT RECORD LEVELS IN ERA OF SUPER-CONSOLIDATION

*March 18, 2008 (MineWeb)* – A PricewaterhouseCoopers report released today suggests that landmark M&A deals may reshape the top-tier mining companies this year as consolidation will continue to be a strong deal driver among mid-tier and smaller companies.

In their report, Mining Deals 2007 Annual Review, PwC's Global Mining Deals Team said, '2008 looks set to see mining deals reach very high record levels as super-consolidation takes place in the market.'

PricewaterhouseCoopers advises that 2008 will be "the year of super-consolidation as the giants of the mining and metals sectors seek combination that will increase their worldwide scale." This consolidation trend may include also players from China and Russia. The report

indicates that state-owned enterprises and companies not immediately associated with mining will continue to influence the strength of the mining M&A market.

PricewaterhouseCoopers advises that mining is "in a phase of major structural change, with consolidation of the mid-tier and among smaller companies and the emergence of the super-majors among the biggest diversified companies." They noted that the deals have become a "key mechanism" for filling the pipeline of development projects and diversifying corporate portfolios "in terms of both commodities and geology."

Interestingly, Pricewaterhouse Coopers found that private equity buyers aren't as active in the mining sector. "The risk-reward equation in the mining industry limits the

scope for using debt and the need for specialist mining expertise prohibits the additional management value that can be injected."

Mining M&A deals and total deal value reached record highs last year. M&A deals increased 69% to a total of 1,732 with an aggregate transaction value up 18% to nearly US\$159 billion. PricewaterhouseCoopers found

that the number of \$1 billion-plus deals tripled in two years from eight in 2005 to 25 in 2007. However, 90% of all mining deals in 2007 involved transactions of US\$250 million or less. Base metals companies, coal, uranium and mineral sands sectors are experiencing the major growth in deal activity, the report noted.

## CHINALCO PRESIDENT WANTS BIGGER RIO TINTO STAKE

*March 18, 2008 (Reuters)* – Chinalco, the Chinese aluminum giant that led a \$14 billion investment in Rio Tinto, is more likely to raise its stake than reduce it, its president said Tuesday. "I feel the price was very good," said the president, Xiao Yaqing. "It was a very appropriate price. The price was not high considering Rio's value. In the current circumstances, the possibility of raising the stake is higher than cutting it."

Xiao declined to say how many shares the two firms might buy if they raised their stakes. But no move is imminent. The companies made the 12 percent purchase under a one-month agreement, now expired, that had allowed a stake of up to 14.9 percent of shares listed in London.

Rio also has a listing in Sydney and, under Australian law, foreigners can buy up to 15 percent of an Australian company before they must seek government approval to buy more. Xiao has said he filed papers with the

Australian authorities as a courtesy, even though the initial purchase did not involve Australian shares.

Xiao said he expected aluminum prices to stabilize this year at around 20,000 yuan, or \$2,821, a ton in China and at about \$3,000 a ton on the London Futures Exchange, partly because of strong demand in China. "The prices can help us to offset losses during the production halt hit by the severe weather in the winter," Xiao said, adding that Chalco lost about 200,000 tons of aluminum production out of China's overall loss of 500,000 tons to 600,000 tons.

Xiao also said Chalco did not plan to cut its alumina prices. The company's prices are about 18 percent higher than its Chinese competitors. He said he expected China to become a net importer of aluminum in the fourth quarter of 2008.

## COBALT COMING BACK TO EARTH, AMID AN EXPECTED SURGE IN SUPPLY

*March 18, 2008 (MineWeb)* – There are indications that cobalt is finally coming back to earth following more than 12 months of a bullish run amid strong demand in a tight market, which culminated in a cynical peak of over US\$54 a pound last week.

On Monday this week, high grade cobalt metal was selling for US\$53.90 per pound in China, after having achieved a high price of US\$55.80, as sluggish downstream demand from the market brought prices down, according to a Metal-Pages.com report.

Last week, after more than two weeks without takers, cobalt miner BHP Billiton had to sell 99.80% metal at US\$52.25 a pound. Although the price is a 30-year-high and US\$1.25 a pound more than the February sale price, it is less than the US\$52.50 that was initially sought. Russian producer Norilsk Nickel showed an offer price of US\$48.50 per pound.

A Shanghai-based producer was also offering 72% cobalt oxide at US\$37.85, down from the US\$39 a pound seen in the past weeks, Metal-Pages.com reported. The website also quoted an official of a Zhejiang-based smelter as saying: "Supply on the spot market has been relatively tight, but the weak demand has offset the supply shortage." The official also told of the smelter concluding some of the metal sales at around US\$54.54 a pound "in the past few days".

Speculative buying and consumer demand in the face of supply constraints in the Democratic Republic of Congo (DRC) and the depletion of US government and former Soviet Union stockpiles saw the price for the metal surging over 70% in 2007, the highest since a modern market for cobalt trading was established in 1978.

Nevertheless, the balance is finally shifting in favour of the consumer. The DRC, a major cobalt supplier, has

finally concluded the review of over 60 war-tainted mining licences, with expectations now pointing to the possibility of rising supplies and surpluses in this year and beyond.

Analysts quoted by Bloomberg on Monday predicted an 85% surge in production during the next 20 months as mines in the DRC upped production in response to surging demand, with new projects coming on stream.

The price of high grade cobalt would probably decline by 41% within a year to US\$30 a pound, Bloomberg quoted Standard Chartered Plc analyst Daniel Smith, who forecast worldwide cobalt production to reach 100,000 tons next year "if all known projects are completed".

## DRC MINING REVIEW GETS ROUGH

*March 18, 2008 (MineWeb)* – Martin Kabwelulu, Democratic Republic of the Congo mining minister, has told parliament in Kinshasa, further articulated in a subsequent media release, that a special task force looking at mining contracts in the country will "identify those contracts in relation to which there are clear and unambiguous grounds for termination".

The approach contrasts sharply with the line taken in early February at the Cape Town mining Indaba, where DRC deputy mines minister Victor Kasongo said "government's object is to bring the companies back to the negotiating table", and find ways of resolving problems without legal disputes. Kasongo's comments were followed by a rally in copper stocks with exposure to the DRC.

However, according to high level sources familiar with the situation, the bottom line was that DRC president Joseph Kabila had instructed that no licences would be

taken away from any of the big five players; that none of the major players would lose concessions. If licences and/or concessions were to be revoked, so the sources maintained, it would only impact the small operators – "those without the political roof cover and certain other means". The so-called "big five" refer to First Quantum, Katanga Mining, Camec, Metorex, and Anvil.

In February 2008, companies were notified of the Revisitation Commission's findings and recommendations in relation to their contracts. Companies were given an opportunity to respond to these findings, and invited "to provide appropriate reactions", and eventually to enter into discussion with the ministry about addressing them. The ministry says it "remains open to further factual information which may not have been taken into consideration by the Revisitation Commission".

## WORLD PLATINUM DEFICIT TO SURGE ON PRODUCTION WOES

*March 19, 2008 (Reuters)* – The global platinum market is likely to witness a huge deficit this year and in 2009 as a power crisis in top producer South Africa hits output, while industrial demand remains strong, a Reuters survey showed.

The poll of 11 analysts and traders forecast on Wednesday that the median deficit for platinum, used in jewellery and to clean vehicle exhaust fumes, is likely to widen to 470,000 ounces by the end of 2008. The deficit is seen at 422,500 ounces in 2009. Analysts said tight market conditions were expected to put an upward pressure on the price, which hit a record high of \$2,290 (U.S.) on March 4.

The electricity grid supplying Africa's biggest economy came close to collapse in January, forcing mines to shut down for five days. Since then mines have been operating

below full power, driving up prices and raising fears of job losses. "Driven by the continued power-induced supply disruptions in South Africa, we forecast a sizable deficit of 470,000 ounces on the platinum market in 2008," said Michael Widmer, metals analyst at Lehman Brothers.

Production problems in South Africa were likely to continue. Anglo Platinum, the world's top platinum producer, said last month power problem alone would cut output by 120,000 ounces in 2008. This year's flooding at its second-largest mine would cut a further 60,000 ounces.

Impala Platinum, the world's second biggest producer, has said its output in the year to end-June would fall to just under 2 million ounces from 2.026 million in 2007. "Any movement in the platinum price is likely to be

driven by additional supply side shocks out of the South African platinum majors," said Justin Froneman, analyst at Macquarie First South Securities. "With additional power supply unlikely to surface, the power situation is likely to result in further output losses and this will be commodity price positive."

On the demand side, platinum use in autocatalysts soared 135 per cent in nearly a decade to 4.24 million ounces in 2007, mainly due to stringent emission norms and growing vehicle production. Analysts say the trend is likely to continue.

### NIGERIA'S ALUMINUM SMELTER REOPENS, OUTPUT REACHES 40,000 MT

*March 19, 2008 (Platts)* – Nigeria's only aluminum smelter has produced 40,000 mt since reopening last month after an eight-year closure over lack of funds. It aims to hit full capacity of 197,000 mt/year by 2010, creating 1,900 jobs, the managing director of the Aluminium Smelter Company of Nigeria, or Alskon, Anfrey Partyanskiy, was quoted in Punch newspaper Wednesday as saying.

"The core investor, Russian Aluminum, has turned things around and the once-deserted Ikot Abasi community is now a beehive of activity," the newspaper quoted a company statement as saying. "The automated

management system ... successfully applied at UC Rusal's facilities all over the world has been implemented at the plant," the statement added.

Alskon is key to Nigeria's plan for economic utilization of its vast natural gas deposits and ending flaring of the gas. UC Rusal, which produces one-tenth of the world's aluminium, acquired a 77.5% share in the company when it was privatized in February 2007, and immediately began a large-scale modernization program. Germany's Ferrostaal AG and the Nigerian government hold the remaining 7.5% and 15%, respectively.

### CHINA BLOCKADE WON'T LAST LONG: BHP

*March 19, 2008 (The Australian)* – Mining giant BHP Billiton has joined Rio Tinto in talking tough on seeking higher iron ore prices as China seeks to put pressure on the Australians to cave in by delaying some high-priced Australian spot sales into the country.

In a move reminiscent of previous iron ore talks, when the Chinese Government sometimes used heavy-handed tactics to pressure the miners, traders in China said Beijing had delayed issuing import permits for March, stranding at least three unloaded cargoes at Xingang port in Tianjin. The Chinese move might be a reaction to Rio's decision in January to start exercising contract clauses that enable it to divert up to 10 per cent of contracted volumes on to the spot market.

But with iron ore in short supply and spot prices soaring, analysts doubt that the Chinese steel mills can afford to turn away Australian spot cargoes, and BHP chief commercial officer Alberto Calderon believes it will be only a temporary delay.

But the Chinese move highlights the deterioration in relations between the Chinese and the Australians, who have dismissed as too low a massive 65-71 per cent increase in annual contract prices agreed to by Brazilian giant Vale.

Most Australian ore is sold under long-term contracts, but with spot prices of nearly \$US200 a tonne compared with a new landed contract price of about \$US120 a tonne, the Australian miners are moving to sell more ore on the spot market. Both Rio and BHP are also pushing aggressively for an added freight premium to recognise the cheaper cost of landed iron ore from Australia relative to more distant Brazil.

Mr Calderon said the freight difference was worth as much as \$US8 billion in additional annual revenue for the Australian iron ore miners. That would please the Government, which would gain additional royalties and tax revenue, but not the Chinese who have to pay for it. The Chinese steel mills are already worried at the prospect of BHP taking over Rio and increasing its market clout, but that clout is now already effectively being wielded.

But Rio and BHP are far from united as Rio seeks to fend off BHP's hostile takeover bid. And in what seemed a move to pacify BHP's Chinese customer base and reassure Beijing over its intentions, Mr Calderon criticised Rio's tough stance on diverting contract ore into spot markets as breaking the "spirit" of the contracts.

He said BHP would fulfil 100 per cent of its contracted deliveries, although in the future BHP planned to move more ore on to spot and index-based pricing. The price talks appear destined to spill over into the new contract year starting on April 1. But while any deal will be

backdated, there is industry speculation that unless a deal is done by the end of June, Rio and BHP might be able to void some contracts and divert all that ore on to the spot market.

## SOUTH AFRICA'S ESKOM SAYS PRESSURE EASED ON MINES' POWER

*March 19, 2008 (MineWeb)* – South African power utility, Eskom, gave the assurance this morning that there is no immediate threat to mines' power supply as the tight power situation of earlier this week has eased and its key customers would share power cuts in the country.

The statement came after an Eskom official told a radio station earlier this week that it might have to inform mines of force majeure on power supplies again if the utility lost more power generators. The power utility came under pressure this week as several generators tripped and nine were scheduled to undergo maintenance.

Raesah Waja, Eskom spokesperson, told Mineweb that mines would only come under pressure again under severe circumstances, but at this stage the utility was ramping up "units" that were down.

She confirmed that power cuts would be shared more equitably in the country when key industrial customers start cutting 10% of their consumption at the end of March.

The local Chamber of Mines insisted earlier that the country's power problems should be shared equitably so the industry does not bear the burden of limited power alone.

Chamber spokesperson Jabu Maphalala said the "prevailing condition" was that the industry, or at least major mines in the industry, was supplied with 95% of average power consumption. Whether the industry would push Eskom for more power in future would depend on the national power situation.

Gold Fields spokesperson Reidwaan Wookay said Eskom never gave the mining industry the "false promise" that it had 95% guaranteed power supply, but the company was optimistic that the increased supply to certain mines would be sustained.

## BHP BILLITON BITES THE ESKOM BULLET

*March 20, 2008 (miningmx.com)* – The Eskom power crisis is going to cost BHP Billiton some \$343m (about R2,7bn) in lost annual revenues because of forced production cuts at its three aluminium smelters in Richards Bay and Maputo. The bulk of the production cuts will be made at the group's smallest smelter – Bayside in Richards Bay – which is the highest cost producer of the three.

The jobs of some 400 employees and 500 contractors may be affected as a result but BHP Billiton spokesperson Bronwyn Wilkinson said the group would do everything it could to minimise the impact.

BHP Billiton has been forced to make the cuts in line with Eskom's demands that it reduce power consumption by 10% across the three smelters because it can no longer supply the power. Wilkinson said that, following the previously announced consultations with employees and their representatives, there were no feasible alternatives to the closure of the B and C potlines at the Bayside

Smelter. She added the "ramp-down" process at Bayside would begin on March 25 and take about two months to complete.

Eskom's power crunch is also bad news for Rio Tinto's proposed \$3.25bn Coega aluminium smelter which was supposed to start production in 2010 ramping up to output of 360,000t/year during 2011 at which point the smelter would draw 670MW of power. Latest official statement from Rio Tinto, issued on March 13, indicated the project is going to be delayed until the group is satisfied that Eskom will be able to deliver the promised power.

Delaying Coega will be a blow to SA's investment image as well as the country's growth prospects. It will also represent an embarrassing setback for the ruling ANC party which has been trying to attract a major industrial project like this to its political heartland – the Eastern Cape – for more than a decade.

## RUSSIAN TYCOONS AGREE NOT TO LIQUIDATE ASSET FIRM

March 20, 2008 (Reuters) – Russian tycoons Vladimir Potanin and Mikhail Prokhorov agreed on Thursday not to liquidate the KM-Invest firm managing their joint assets, the company said in a statement.

A Russian arbitration court earlier blocked the sale of the assets managed by KM-Invest, including 2 percent in metals giant Norilsk Nickel and 7.4 percent in Russia's top gold producer Polyus Gold, at Prokhorov's request.

Potanin and Prokhorov had been in a complex process of dividing their jointly owned assets, and their decision not to liquidate the asset management firm may indicate they have reached some kind of agreement.

KM-Invest gave no details of the agreement, adding that "the company's shareholders also agreed on a unified approach on voting with packages of Polyus Gold and Norilsk Nickel shares at emergency shareholders' meetings".

Prokhorov had been offering to buy Potanin's stakes in companies owned by KM-Invest, or to sell him his own on unspecified conditions, after KM-Invest's board approved the sale of the stakes in Polyus and Norilsk.

As Prokhorov's offer was not accepted, he demanded a liquidation of KM-Invest.

## LUNDIN CEO DISMISSES ANY POSSIBLE TENKE FUNGURUME COPPER/COBALT APPROPRIATION

March 20, 2008 (MineWeb) – Lundin Mining President and CEO Phil Wright told analysts and fund managers Wednesday that he believes "appropriation is a non-issue" in the decision of the Government of the Democratic Republic of Congo's review of the Tenke Fungurume cobalt project.

During a conference call Wednesday to discuss Lundin's financial results, the company reported a net loss of \$436.6 million for the fourth quarter 2007 after non-cash impairments charges of \$491.9 million relating to its merger with EuroZinc and the acquisition of Rio Narcea.

The fate of the world class Tenke Fungurume copper-cobalt project rests in the discussions between operating partner Freeport-McMoRan Copper & Gold and the DRC Mines Ministry, Wright told analysts. While Wright said he believed the negotiations would be a "long, lengthy

process," he added that he believes that the DRC does not have the legislative power to appropriate the project. Tenke Fungurume is expected to begin production in 2009 at a capital cost now estimated at \$900 million. It is estimated that the mine will produce 250 million pounds of copper and 18 million pounds of cobalt annually in the first 10 years of operation.

In December 2007, Freeport President and CEO Richard Adkerson told analysts that Congo President Joseph Kabila personally assured Freeport-McMoRan Copper & Gold that the company's huge copper/cobalt mining project in the country will not be canceled. During Wednesday's conference call, Wright told an analysts that he see no reason for Lundin to take a Tenke impairment charge.

## AUSTRALIA'S LIHIR AND EQUIGOLD AGREE ON MERGER

March 20, 2008 (Yahoo Finance) – Australian gold producers Lahir and Equigold announced a merger Thursday that will create one of the world's largest gold companies with combined assets of nine billion dollars (8.4 billion US). Equigold had agreed to a Lahir offer of 33 shares for every 25 Equigold shares, valuing Equigold at 5.33 dollars a share or 1.1 billion dollars (1.02 billion US), the companies said in a joint statement.

"This new company will hold a portfolio of long life, high quality assets in diverse geographic locations, effectively eliminating single mine asset risk and leading

to improved valuations for the combined group," Lahir chairman Ross Garnaut said.

"The new entity will be well placed to take advantage of ongoing strength in the gold price to deliver increased returns to shareholders. We will have a robust balance sheet, virtually no hedging and an excellent growth profile," he added. Lahir's operations are primarily focused on Papua New Guinea, while Equigold has interests in the west African country of Ivory Coast.

The combined group will have assets in Australia, West Africa and Papua New Guinea, producing in excess of 1.2 million ounces of gold a year from 2009, the statement said. It said directors of both companies had unanimously backed the proposal, which would create a company with combined assets of nine billion dollars.

The deal, expected to be completed in June, is still subject to a number of conditions including the approval of Equigold shareholders and regulators. A break fee of 11.3 million dollars is payable to either company if the deal falls through.

## THE SUDSING OF COMMODITIES IS NO MORE THAN A DIP IN THE RISE OF THE SUPERCYCLE

*March 20, 2008 (The Age)* – The sharemarket's latest dip underlines how hard it is to pick the bottom of a bear market, and introduces something new to fret about: the possibility that Australia's resources sector is also beating a retreat. Steep falls in the resources sector of the sharemarket yesterday followed price falls for all the key commodities, and the credit crisis was, as usual, at the heart of the matter.

Yesterday, ahead of trading in this region, the Commodity Research Bureau's commodity price index fell by 3.9%. Industrial commodities tracked by the CRB were down 3.5%, grains were 5.1% lower, and energy commodities including oil were down almost 6%. Gold has fallen 7% in the past three days. Resources shares fell in sympathy: BHP Billiton and Rio Tinto lost 8.3% and 7.7% respectively, but marked time in their takeover battle (more about that later).

The commodity price falls come after steep price increases this year that were driven arithmetically by the decline in the US dollar, and volumetrically by demand from investors including hedge funds that were switching out of the distressed share and debt markets.

The demand for metals and other commodities this year from hedge funds and other investors is also seen as being finite, and likely to ease if credit conditions

improve, and not totally supported by commodity demand-supply fundamentals.

The "stronger for longer" commodity price theory that groups including BHP Billiton and its target, Rio Tinto, both subscribe to is based on solid projections for medium and long-term demand from China, India and other emerging industrial powerhouses, including Brazil and Russia.

But, as both BHP and Rio have repeatedly stated, "stronger for longer" does not mean that commodity prices will move upwards at a uniform pace, or move only upwards. There will be cycles within the supercycle, and a downward leg could occur if the credit squeeze bites and global growth slows.

It is true that Asia's economies direct much more of their output to themselves than to export customers (China's exports to the US account for little more than 10% of gross domestic product, for example). But even a relatively minor slowdown in Chinese economic growth – from 11% a year to 9%, say – could create problems for commodity markets, because demand from China has been the major source of new global demand in recent years, accounting, for example, for a third of increased oil demand since 2003, and about two-thirds of the increased demand for copper and aluminium.

## CREDIT CRUNCH HITS MOLYBDENUM MINER

*March 20, 2008 (ResourceInvestor.com)* – Shares in Adanac Moly fell almost 13% today to a new 52-week low after the company said it had yet to secure satisfactory financing for its Ruby Creek mine development and four builders have filed liens on the project totalling about \$3 million. This recent development is just one in several setbacks that have hit Adanac since the company disclosed late January that it was essentially not immune to the systemic credit crunch.

Back in January, Adanac called its trouble securing a key \$80 million bridge loan a "minor schedule disruption"

and said that it would "slow down" construction activities on its massive \$650 million Ruby Creek mine while it worked to secure financing continued through February. Yesterday, the company characterized the situation a bit more frankly, disclosing that the firm had been unable to date to secure the financing on satisfactory terms, and that all construction activities at the project had been suspended.

The costs of Ruby Creek are nothing if not massive, and given current market conditions it's unclear when the project will get built. While the project's base-case

economics are reasonably strong, with an IRR of 18.9%, these take into account an elevated molybdenum price of \$28 through 2010 and \$15 through 2015.

Even if the company is able to secure the bridge loan in the near term, Adanac's problems will unfortunately not simply disappear. The project requires \$600 million in debt financing after the bridge financing has run out. Even if the bridge loan is arranged, it's unclear if this is anywhere close to being finalized – and so investors have no certainty when the stars will align for Adanac given current market conditions.

In short, without cash – and a significant improvement in the credits market soon – Ruby Creek could be dead in

the water. Given the project's base case NPV of C\$300 million, there is of course a chance that a larger, better financed firm may try to scoop up Adanac at a bargain price. While there is a shot at this happening, the mine's construction bill is not insignificant even to a larger player – so it's unclear who might want to take on the risk at this point. Additionally, Adanac would owe a break fee to the investment bank it's engaged for its debt financing of up to \$12 million if it is taken out – so this amount must be effectively tacked onto the purchase price.

### ALCOA BRIBERY PROBE LAUNCHED

*March 21, 2008 (AP)* – The U.S. Justice Department has begun a criminal investigation into whether aluminum maker Alcoa Inc. participated in bribery in the Persian Gulf state of Bahrain. In documents filed Thursday in U.S. District Court, federal prosecutors asked a judge to halt a federal civil lawsuit that accused Pittsburgh-based Alcoa (AA, Fortune 500) of bribing officials through overseas shell companies to secure hundreds of millions of dollars in overpayments.

"The United States has a direct and substantial interest in this case, as the subject matter giving rise to this case is also the subject of an ongoing federal criminal investigation," prosecutors in the Justice Department's fraud section said in court filings.

Aluminum Bahrain B.S.C., also known as Alba, in which the Bahrain government holds a 77 percent stake, is seeking more than \$1 billion in damages from Alcoa and other affiliated defendants, according to a federal lawsuit filed last month. Alba, a 30-year Alcoa customer, and Alcoa do not object to the government's request to temporarily halt the civil proceedings, according to court documents.

"We were approached and asked and we agreed to the stay," Alcoa spokesman Kevin Lowery told The

Associated Press early Friday. "We obviously are going to cooperate fully. We see this as an opportunity to see a speedy resolution to the entire matter."

Alba, which operates one of the world's largest aluminum smelters, also sued Alcoa World Alumina LLC, a global joint venture 60 percent owned by Alcoa and 40 percent owned by Australia's Alumina Ltd. After being contacted by Alba about the allegations, Alcoa offered to conduct a full review of its dealings with Alba over the past 20 years, but Alba chose to sue, Lowery said in February.

A "very fast review" done by Alcoa found nothing that deviated from standard practices, which prohibit improper activity by the company's employees, partners and contractors, Lowery said. The company wasn't aware of any wrongdoing and would "vigorously defend" the lawsuit, he said.

Alba, which buys most of its alumina – a material used to make aluminum – from Alcoa and its affiliated companies, alleged the defendants bribed one or more former senior officials of Alba and the Bahrain government to persuade the company to cede a controlling interest in the company to Alcoa and to pay inflated prices for alumina.

### AADC EXPECTS STRONG RESULTS IN SAUDI ARABIA BY 2010

*March 21, 2008 (ResourceInvestor.com)* – The future of the Arabian American Development Company is looking bright; mining operations are expected to generate commercially attractive volumes. The company expects production of significant volumes of copper, gold, silver and zinc will start in 2010.

AADC currently holds a 50% equity stake in the Saudi Arabian Al Masane Al Kobra Mining Company, while the remaining shares have been sold for around \$60 million to Saudi investors. In 2007, AADC received the approval from Saudi Arabia's Ministry of Commerce and Industry for the formation of the Al-Masane Al-

Kobra Mining Company. This preceded the issuance of an exploration and mining license.

The company now holds a 30 years mining lease in the Al-Masane area of southwest Saudi Arabia. The lease, granted in 1993 to AADC, has been based on a discovery of proven reserves of 7.1 million tonnes of ore containing zinc, copper, gold and silver.

In statements made to the Arab press, AADC officials said that the joint venture has received the commercial license from the Saudi ministry of commerce, which enabled it to contract with construction companies, prepare for the transfer of mining assets and appoint independent auditors. AADC has already provided

reports indicating that most of Saudi Arabia's metallic mineral resources are contained in Precambrian rocks of the Arabian shield in the western part of the country. Non-metallic resources are contained in both Precambrian rocks and Phanerozoic rocks that overlie the Arabian shield in the central and northern parts of the Kingdom.

Still, some extra lure for the new operation is based on the possibility of gold reserves. Gold mining has existed in the Kingdom for more than 5,000 years, but until now has been done in rather historical places. Due to new techniques, new avenues and options have popped up for gold mining in the country.



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### *Interesting Facts from Copper.org*

Archeologists have recovered a portion of a water plumbing system from the Pyramid of Cheops in Egypt. The copper tubing used was found in serviceable condition after more than 5,000 years.

Copper cookware is the most highly regarded by chefs around the world. Its noted advantages – high heat transfer (the highest of any material used in cooking) plus uniform heating (no hot spots). Restaurateurs, hoteliers and interior decorators look to copper and brass as naturally inviting metals that make a statement of quality, comfort and beauty.

Some things never change! Ten thousand years ago, cave dwellers used copper axes as weapons and tools for survival. Today, high tech surgeons save lives and precious blood by using copper-clad scalpels. The copper conducts an electric current that heats the scalpel to make it self-cauterizing.

### MR. THOMAS J. LIEN

Behre Dolbear is pleased to welcome Thomas J. Lien as a Senior Associate. Tom is a mining executive with more than 43 years experience in coal, iron ore, copper, and metallurgical research. He was responsible for mining more than 650 million tons of steam coal and over two billion yards of overburden while staying in compliance with federal and state regulations and customer contracts. His operations received the first place Sentinels of Safety three times and several runner-up recognitions, national awards as a leader in mine reclamation, and numerous state awards from Wyoming, Colorado, and Utah.

Tom has a B.S. in Geological Engineering from the University of Minnesota and received the 2007 SME Howard N. Eavenson Award for his outstanding contribution to the development of large surface mines using the truck shovel method and optimizing productivity advancement through the use of process management techniques. He has been a leader in the mining industry for developing preventative maintenance practices, real-time operational dispatch and measurement systems, innovative work schedules to optimize capital investment and usage, developing the first self-directed/self-managed hourly work teams, and for the application of new equipment and technologies. He led in the development of dried coal technology for the Powder River Basin's sub-bituminous coal.

Tom served on numerous professional and civic Boards including the Rocky Mountain Coal Mining Institute (President), the Wyoming Mining Association, the Wyoming Heritage Society, and the Western Research Institute. He was a charter member and chairman of SME's Powder River Basin chapter and a member of SME for 48 years. Tom authored and presented papers on the Powder River Basin, coal drying technology, mining and processing techniques, and equipment applications. Since his retirement from Foundation Coal in 2005, Tom consulted nationally and internationally on mining and processing projects.

Mr. Lien can be contacted by email at [blakeybr@msn.com](mailto:blakeybr@msn.com).

Please join us in welcoming Tom to the Behre Dolbear family.

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## **“ABC’S OF MINING”**

**Hong Kong (May 7-8, 2008 – The Foreign Correspondents’ Club)**

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- ➔ Resource and Reserve Classification Systems and NI 43-101 Reports
- ➔ Open Pit: Mining Methods and Costs
- ➔ The World of Underground Mining
- ➔ Mineral Processing Methods
- ➔ Smelting
- ➔ Environmental and Sustainability: The Social License to Operate
- ➔ Minerals Marketing
- ➔ Global Risks Inherent in Mining
- ➔ Uranium
- ➔ Iron Ore
- ➔ Coal
- ➔ The Valuation of Mineral Properties
- ➔ Mining Acquisitions

The cost for the seminar is US\$1,000 per person and includes coffee breaks, lunches and a cocktail reception the first night. Attendance is limited to the first 60 respondents at each location.

**You may sign up by calling (303) 620-0020. Email: [newsletter@dolbear.com](mailto:newsletter@dolbear.com)**

**Please look for more details in our upcoming newsletters.**



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