

BEHRE DOLBEAR

Global Mining News

SOME HOPE ON MINE EQUITY FUNDING

February 8, 2009 (*miningmx*) – A “flurry” of about ten equity financings completed in Canada over the past few weeks has shown that money “will come out of hiding” for the right kind of mining projects. That’s according to Patrick Meier, MD of RBC Capital Markets, who pointed out that, significantly, a number of the equity financing deals had been for juniors such as Redback Mining, First Uranium and Anatolia Minerals.

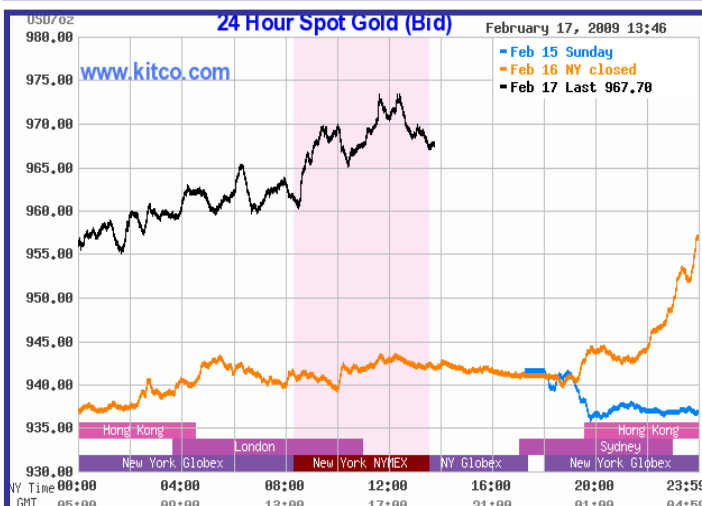
Those were in addition to the well-publicised fund raisings carried out by heavyweight gold producers like Newmont Mining and Kinross. “These fund raisings were predominantly in gold which is the commodity currently in the limelight but it does show the money can be made available,” he told a panel discussion at the African Mining Congress held in Livingstone, Zambia.

Meier added a key factor in the fund raisings was that the projects being financed were close to completion and these deals were the final step in the process. “People do not want to invest at present unless they can see their way through to the other end where the company will start generating real cash flow,” he said.

Raymond James equity analyst Tom Meyer agreed and said: “Investors want to see an end in sight to the financing programme.” Meier said this consideration was more important at present than concerns over dilution of

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USD	FEBRUARY 13, 2009	FEBRUARY 06, 2009
GOLD	935.50	913.00
SILVER	13.3700	12.8900
PLATINUM	1,055.00	989.00
PALLADIUM	213.00	208.00
ALUMINUM	0.6110	0.6450
COPPER	1.5454	1.5606
LEAD	0.5194	0.5284
NICKEL	4.7174	5.2163
URANIUM	47.00 (02/09/09)	48.00 (02/02/09)
ZINC	0.5169	0.5151

the current shareholder base through raising funds at current low share prices.

GMP Securities Europe partner Jeremy Wrathall said the reality of the low valuation situation was slowly sinking in. Meier conceded that a major hindrance to completing deals at present was the volatility of share prices.

Despite the glimmer of hope offered by the recent successful equity financings the outlook for juniors would continue to be tough, said Somit Varna, a director of the International Finance Corporation, which is the

private sector arm of the World Bank. “The equity markets are shut. The debt markets are tight,” he told delegates.

Asked from the floor which sector of the mining industry would be the next to pick up after gold the panel was almost unanimous that it would be copper. Meier voiced the only dissenting opinion because he believed uranium would recover ahead of copper.

RIO CHAIRMAN-ELECT QUILTS OVER CHINALCO DEAL

February 9, 2009 (Reuters) – Rio Tinto director Jim Leng has quit and will not become chairman as had been planned after objecting to a potential deal with the mining group’s top shareholder, state-run Chinese aluminium maker Chinalco. The departure of Leng, deputy chairman of India’s Tata Steel, likely opens the way for Rio to seal a deal with Chinalco, analysts said. Leng was named as Rio’s next chairman just over three weeks ago. Leng said in a statement he resigned following a dispute over how to cut Rio’s heavy debt load of around \$39 billion (26 billion pounds).

Last week, Rio said it had held talks with Chinalco, China’s largest aluminium producer, about selling it convertible notes and stakes in some assets, but declined to comment further. “The two companies are still in talks,” Chinalco vice president Lu Youqing told Reuters on Monday. He could not confirm a timeframe for a deal, which a Chinese newspaper reported was likely to be sealed before Thursday, when Rio Tinto releases its annual results.

Leng did not mention the Chinalco deal in his statement, but an industry source said that was the key issue. “He believes that the financial issue is not best resolved through this Chinese solution because it has some strategy implications that are going to restrict the long-term options available to the company,” said the source, who declined to be named. “This is a financial problem, it needs a financial resolution.” Leng did not resign because he wanted to take up another chairmanship, the source added.

Analyst Charles Kernot at Evolution Securities in London said Leng’s resignation made it more likely that Rio would agree a deal with Chinalco. “If he was against the Chinese deal, then theoretically, they’ll get consensus on the board and push it through,” said Kernot, who favours a rights issue over a Chinalco deal. “The difficulty is that if they’re going to be selling off some of their growth assets, then not all of that growth will accrue to Rio shareholders.”

CHINESE GET RESOURCES GREEN LIGHT

February 9, 2009 (The Australian) – The march of the Chinese into Australia’s resource space has intensified. Significant deals have been given the green light and mining giant Rio Tinto has confirmed it is in strategic talks with a Chinese major. With struggling miners seeking financial aid from China to survive the global downturn, the economic powerhouse has the luxury of picking through quality assets to gain a firm hold over long-term supply of a range of commodities.

Debate on Chinese interest in Australia’s miners gained momentum last week when it was revealed that Rio Tinto and Chinalco were in talks about a potential \$US20 billion (\$33 billion) deal that would give China stakes in Australia’s largest iron ore operations and key aluminium projects.

Highlighting how intent it is upon securing a deal, Chinalco has hired the services of Labor Party-connected

lobbying firm Hawker Britton as it targets up to a 20 per cent stake in the dual-listed miner. Ian McCubbin, leader of Deacon's China Group in Australia, said China was eyeing quality assets that were not available six months ago.

"China is taking a long-term view and is saying that at least over the next 12 months this is going to be as good an opportunity as it gets to acquire quality assets in the foreseeable future," he said. Mr McCubbin said that while greater scrutiny would be placed on spending, China was still in a position to fund many projects in Australia.

NSW zinc and lead producer Perilya has handed over control of its operations to China's Zhongjin Lingnan,

which paid \$45.5 million for a 50.1 per cent interest in the struggling miner. The Chinese company gained shareholder and Foreign Investment Review Board approval last week. It was the first major decision by FIRB relating to a controlling stake in an Australian miner since the start of the global credit crisis.

Chinese enterprises are also understood to have sought approval from FIRB for an interest in some of the assets being offered up by OZ Minerals. It is expected the diversified miner's list of asset sales could set the agenda for Chinese interest, with its February 27 refinance deadline looming.

CASHED-UP BHP STILL EYEING ASSETS

February 9, 2009 (The Australian) – Buoyed by strong cash flow, BHP Billiton is eyeing off the assets of its rivals as they struggle to cope with the slump in commodity prices. The miner revealed last week in its half-yearly results that its production of bulk commodities such as iron ore, metallurgical and thermal coal and manganese had generated \$US520 million (\$803 million) a week in free cash over the six months to December 31.

Chief executive Marius Kloppers said the results meant the company was well positioned to take advantage of asset sales by distressed rivals. Underlying pre-tax earnings rose 24 per cent year on year, while impairments from depressed prices, taxes and the failed Ravensthorpe nickel operation slashed net profit by 57 per cent to \$US2.68 billion, the lowest since 2004. The pre-tax profit of \$US11.9 billion unveiled last Wednesday tallied with expectations and Mr Kloppers said yesterday that BHP's diversity of interests would protect the company's strong cash flow from the collapse in spot prices for bulk commodities over the next six months.

"We've got operating currencies coming through; we've got cost reductions coming through. If you look at the track record of this company, one of the great outstanding things is the stability of cash flows," he said.

Despite declining to be drawn on any details of current dialogue with other companies, Mr Kloppers said assets of companies such as Rio Tinto would "fit very well" within the BHP portfolio. "We think we can be very competitive and would like to react to assets that are tier one, that fit our strategy and that become available from a variety of parties in the market should they fall into distress – which we are seeing not only in one place but in several places across the market," he said.

But British Takeover Panel rules and the previously indicated cooling-off period made a cash bid for Rio Tinto impossible, he said.

ABSA-BARCLAYS WARN OF 'SUBPRIME-LIKE' BEE MELTDOWN

February 10, 2009 (MiningWeekly) – Steps that South African banks might have to take to protect themselves against defaulting black economic empowerment (BEE) mining transactions would be "unpleasant, but necessary" if South Africa was to avoid a "subprime-like string of

bank write-downs, or worse", Absa Capital-Barclays investment banker Cliff Zephyrine warned on Tuesday.

Describing 2009 as "the year of reckoning for BEE mining deals in South Africa", Zephyrine announced that

he was coming before the Mining Indaba audience in Cape Town to address one of the most “vexing issues” facing corporate South Africa – the failure of several large BEE mergers and the need to curtail BEE bankruptcy, bank write-downs and corporate provisioning. The moral dilemma was “agonisingly acute” as banks had to “reluctantly but rightly” choose to protect their capital bases over the “laudable” socioeconomic objective of “wealth transfer”.

South African banks, which were the largest funders along with mining houses, were in a delicate position because of tightened liquidity and more onerous regulation, and would not be able to accommodate defaulting transactions in the current market environment.

Zephyrine said that it was even more taxing in the mining sector because BEE took on an emotive tone given South Africa’s natural resource patrimony and the long-term skewing of wealth flowing from South Africa’s soil. Absa-Barclays, Zephyrine said, believed that it was important to adapt the mining empowerment strategy to suit reality.

In view of a raft of potential failure and changing political winds, the ways of effecting economic ownership should be revamped to enable black South Africans to own some of South Africa’s vast mineral wealth on a “genuinely sustainable basis” Absa-Barclays said it wanted to avoid the “spectre of BEE bankruptcy” becoming a widespread reality.

Zephyrine equated doing nothing with playing Russian Roulette. He said Absa-Barclays had spoken to BEE groups, investors and financiers and their potential solutions included BEE-led, corporate-led and government-led solutions. BEE-led solutions embraced BEE consolidation, where the diseconomies of fragmentation would be countered; BEE-blind flexible capitalisation; and BEE access to the hedging of the physical commodities. Zephyrine said hedging should not be seen as being “profane” for BEE companies, but rather as being “prudent”. The corporate-led solution could be the provision of vendor finance from mining companies.

Government-led solutions could include the revision of the ultimate conversion deadlines; the provision of tax rebates for companies that cushion the financial impact for BEE participants; or government becoming the subordinated lender to BEE entities. Absa-Barclays, he said, believed that broader BEE intervention was necessary and time-sensitive, because several sizeable transactions, particularly in the mining sector, were in breach owing to the deterioration in earnings and low share prices.

It was time to be courageous enough, critical and constructive, without being too prescriptive, as BEE transactions had become challenged, with several deals being restructured.

CHINA STILL IN THE MARKET FOR COPPER

February 10, 2009 (*The Australian*) – China, the world’s biggest copper consumer, might be struggling to buy the metal overseas and could delay negotiations following a rise in prices, according to Macquarie Group. China’s State Reserve Bureau appeared to be in talks with various copper mining and trading companies, the bank said.

A report from Macquarie analysts led by Jim Lennon and Bonnie Liusaid said the Chinese agency could “easily walk away” from negotiations if prices remained around current levels. “No agreement has yet been reached, with the parties having differing expectations regarding the copper price outlook for 2009,” the analysts wrote, without identifying the companies involved.

The bureau was interested in buying as much as 25,000 tonnes a month, including metal in concentrates, they said. Copper has jumped 8.7 per cent in two days on optimism US and Chinese economic stimulus plans will

boost growth and increase demand for industrial metals. Speculation that the reserve bureau had started buying helped fuel gains. Still, the SRB might have started buying “earlier than commonly thought”, Barclays Capital said last week.

China would buy the metal overseas to boost state stockpiles, Wang Chiwei, Jiangxi Copper’s executive director and vice-president, said in Shanghai on January 19. The bureau would adopt a “flexible” approach and the “question is when and how to buy it,” he said then.

In a report on February 4, Liu Na, a Scotia Capital analyst, said: “We expect the SRB eventually to buy 700,000 tonnes of copper in two years. We also expect China’s imports to remain at record levels again in January.” The agency held 1.15 million tonnes of the metal, he said in October.

ZAMBIA DISMANTLES WINDFALL TAX

February 10, 2009 (*miningmx*) – Major changes to Zambia's mining legislation are being made to help mining companies operating in the country which have been hit by the global financial crisis. The changes have been welcomed by mining sector executives who comment the responsiveness of the Zambian government stands in sharp contrast to the hard-line attitudes found in other countries; in particular, Angola and the Democratic Republic of Congo (DRC).

Addressing the African Mining Congress held in Livingstone, the Zambian minister of mines and minerals, Maxwell Mwale, said a number of measures were being introduced in the 2009 budget "in an effort to enhance the profitability of the mining industry and maintain its competitiveness." These included the removal of the windfall tax which was highly unpopular with the mining industry; an increase in the capital allowance to 100%; a reduction in the duty on heavy fuel oils from 30% to 15%, and the removal of customs duty on copper powder, copper flakes and copper blisters.

Zambia has also opted to include copper and cobalt concentrates imported to smelters in the country on the import deferment scheme for value added tax purposes. But Mwale sounded a warning to the mining companies

over government's expectations that they also come to the party by operating more efficiently.

Interviewed after his presentation Mwale said he believed it was government's role to provide an enabling investment environment that allowed business to make the investments that will drive the mining sector.

Mwale was critical of a number of aspects of the way mining companies were operating in Zambia which he believed drove up working costs and reduced employment opportunities in the sector. These included the 100% outsourcing of equipment maintenance and repair contracts as well as outsourcing of other key mining functions such as drilling and blasting.

Mwale played down suggestions that Zambia was being more responsive to the needs of the mining sector than some of its neighbours. Despite this a number of delegates at the conference contrasted Zambia's pragmatic approach with that of neighbouring copper producer the DRC where a review of mining licences granted in the country has just been conducted resulting in demands for upfront royalty payments and greater equity stakes to be granted to the state.

INDIAN IRON-ORE PRICES MAY DOUBLE ON CHINA REVIVAL

February 10, 2009 (*Bloomberg*) – India's iron-ore export prices are expected to double from last year's low as China, the world's biggest steel producer, raises purchases, an industry group said. Prices for immediate delivery are expected to increase to as much as \$90 a metric ton in the "near-term" from \$45 in November, said R.K. Sharma, secretary general of the Federation of Indian Mineral Industries, a grouping of iron-ore miners. Prices are currently about \$84 a ton, he said.

India's iron-ore exports in December rose 38 percent, the first gain in eight months. China's steelmakers, which cut output in the second half, are benefiting from the 4 trillion yuan (\$585 billion) federal stimulus plan to revive growth.

"Mills in China's northern province of Hebei are ramping up production because they have returned to profit, increasing the need for ore," said Du Wei, head of iron

ore at Shanghai's Umetal Research Center. "Ore stockpiles at the plants are very low."

Iron ore inventory at major ports in China rose 7 percent since the end of the Lunar New Year holiday. Stockpiles rose to 61 million tons at the end of Feb. 6 from 57 million tons in the week ended Jan. 23, said Hu Kai, another analyst at Umetal. The Lunar New Year holiday ended Jan. 30.

India produced 160 million tons of iron ore in the year ended March 31, two-thirds of which was sold to China, according to the federation.

China's stimulus package, which will boost spending on housing and railroads, has revived steel demand, the Ministry of Commerce said on Feb. 5. Local benchmark steel prices jumped 46 percent from November when the government announced the package.

RUSORO MINING'S HOSTILE BID FOR GOLD RESERVE ENDS ABRUPTLY

February 11, 2009 (MineWeb) – The decision of an Ontario Superior Court judge Tuesday granting an injunction restraining Rusoro Mining from its hostile takeover bid of Gold Reserve has prompted Rusoro to withdraw its bid.

The interlocutory injunction was granted by Superior Court Justice Peter Cumming following a motion by Gold Reserve on the basis that Rusoro allegedly had access to or benefitted from the use of confidential information concerning Gold Reserve as a result of Rusoro's relationship with Endeavour Financial International.

The court also issued an injunction restraining Endeavour from having any involvement with a hostile takeover bid for Gold Reserve, which had been a former Endeavour client. The court required that Rusoro, Endeavour and their agents return all the confidential information concerning Gold Reserve to the Spokane-based junior company and also anything produced from that confidential information. Any Gold Reserve shareholders

who have already tendered their shares to Rusoro will have their shares returned.

In a brief statement, Rusoro said it had withdrawn its offer for Gold Reserve "as conditions of its offer can no longer be satisfied as a result of the decision issued today by the Ontario Superior Court of Justice. As a result, the hearing before the Ontario Securities Commission to consider cease trading Gold Reserve Inc.'s shareholders rights plan which was scheduled to take place February 12, 2009, will not proceed.

Rusoro initiated the Cdn\$128 million (US\$102 million) all share takeover bid last December in an attempt to take control of Gold Reserve's Las Brisas gold project in Venezuela, located next to Crystallex's Las Cristinas gold project. The administration of Venezuelan President Hugo Chavez has made little secret of the desire to acquire the projects and operate them in a joint venture with Rusoro and its Russian managers.

EDITOR'S NOTE:

Behre Dolbear was pleased to provide technical support to Gold Reserve Corporation in its defense against the Rusoro takeover bid.

IMF CONFIRMS PLAN TO SELL 403 TONNES GOLD

February 11, 2009 (Reuters) – The International Monetary Fund said it does not intend to alter plans to sell just over 400 tonnes of gold to fund changes to its financing base, an IMF spokeswoman said on Wednesday. A recent surge in IMF lending to countries facing balance of payments crises related to the global economic slowdown and financial turmoil has led analysts to question whether the Washington-based institution will proceed with the plan.

But a spokeswoman for the IMF – the third largest official holder of gold – said the sale would still go ahead. The IMF agreed in May last year to create an endowment with the profits from the proposed sale of the

gold as part of a broader makeover of the IMF's financial structure and investment strategy.

Such a move, however, depends on approval by member countries' legislatures, including the U.S. Congress. With a change of administration in Washington and a focus in the United States on the economic turmoil, the issue of gold sales and more general IMF reform has been pushed to the backburner.

The sale of 403.3 tonnes of gold was originally proposed in 2007 after a committee chaired by Andrew Crockett recommended the IMF adopt a new funding model. The IMF said on its website its finances had become

unsustainable after a decline in its lending business. With more countries now seeking IMF assistance to ward off the effects of the global financial crisis, there is speculation that as this business picks up, it will roll back its plans to sell bullion.

“It is possible that the issue of gold sales to plug a funding gap that is disappearing... and which are already two years down the line from the Crockett Committee’s report, could be put on the back burner,” metals consultancy VM Group said in a report. “At the very least, the IMF’s renewed relevance has strengthened the

case of those who oppose such sales,” it said. The fund has said repeatedly that sales would be made under the umbrella of a central bank gold agreement to avoid disruption to the market.

Analysts say the IMF’s desire to sell gold is a major indicator that a further agreement will be signed, despite sales hitting a historic low last year as central banks hung onto the precious metal as a ‘safe’ reserve asset.

RIO TINTO, CHINALCO CLINCH \$19.5 BLN DEAL – FINANCIAL TIMES

February 11, 2009 (Reuters) – Debt-laden mining group Rio Tinto Ltd/Plc has agreed to a \$19.5 billion cash injection from China’s state-owned Chinalco under a deal to be unveiled on Thursday, the Financial Times said on its website. Such an agreement had been widely expected after Rio’s chairman-designate, Jim Leng, quit the mining group two days ago because of objections to a tie-up with the state-run Chinese aluminium maker, which is Rio’s top shareholder.

Rio, the third-biggest diversified mining group by market value, announced last week it had held talks with Chinalco about selling it convertible notes and stakes in some assets. A deal with Chinalco may help dampen investor concerns over Rio’s \$39 billion debt load and an \$9 billion debt payment due in October.

Under the terms of the deal, Chinalco will increase its stake in Rio to 18 percent from 9 percent. It will buy \$7.2 billion in convertible bonds that will convert into Rio shares at a later date, the FT reported, without saying how it had obtained the information.

Chinalco bought a 9 percent stake in Rio with U.S. aluminium giant Alcoa a year ago, but it would likely need fresh permission from Australian authorities, which

have said Chinalco can increase the stake to 14.99 percent. Chinalco will also invest \$12.3 billion in three strategic partnerships with Rio across its copper, aluminium and iron ore divisions, the FT said.

Rio owns 30 percent of Escondida, the world’s biggest copper mine, in a joint venture with BHP. The FT did not explain how Rio can sell a stake to Chinalco when BHP has a pre-emptive right to buy the stake. BHP declined to comment. Goldman Sachs/JP Morgan were said in a note on Tuesday that it was difficult to judge such a deal without the details, but selling high-quality assets threatens to erode value for shareholders.

In effect, the deal was trading strong assets such as iron ore to pay off debt for an expensive acquisition of Canadian aluminium producer Alcan at the height of the commodities boom, it said. The FT also said Chinalco will set up a \$1 billion joint venture with Rio, with each contributing \$500 million, which will be used to develop projects such as the Simandou iron ore project in Guinea.

Under the deal, Chinalco will receive one seat on Rio’s board and have the right to appoint another at a later date.

SOUTH AFRICA DELAYS IMPOSING MINING ROYALTIES TO SAVE JOBS – MINISTER

February 11, 2009 (MiningWeekly) – In an effort to mitigate job losses in the mining industry, South Africa’s Finance Minister Trevor Manuel on Wednesday proposed that government delay the implementation of new

mineral and mining royalties until March 2010. “This provides a boost to the industry of about R1.8-billion, which will assist in minimising job losses,” the Minister

said in his Budget speech. The Mineral and Petroleum Resources Royalty Act of 2008 was initially set to be implemented in May.

The mining sector had been set back by electricity supply failures, shutdowns related to mine safety, retreating commodity prices and weakening international demand in 2008, the National Treasury stated in its 2009 Budget Review. While employment in the industry had grown owing to rising commodity prices until September last year, the rapid decline in commodity prices has since led to the retrenchment of thousands of mineworkers.

Chamber of Mines CEO Zoli Diliza said in a statement on Wednesday afternoon that the chamber was grateful for the deferment of the mining royalties regime until 2010. He noted that this would not only provide relief for the mining industry, but would also assist in dealing with some of the challenges that the industry, labour and

government had been grappling with within the Mining Industry Growth, Development and Employment Task Team.

The South African Chamber of Commerce and industry, meanwhile, expressed its support for the Budget announcement, saying that business particularly appreciated the proposals to bring relief to the mining industry. Meanwhile, Manuel announced that government was also considering establishing an agency to invest in economic development in mining towns or areas where many of the affected and retrenched mine workers lived.

The proposed agency would be jointly managed by business, labour and government, with the National Treasury saying that it would make an allocation for the agency's activities in the adjustments Budget, if the agency could still be established this year.

GOLD PRICE OF \$2,300/OZ 'WOULD NOT BE SURPRISING' – US GLOBAL

February 11, 2009 (MiningWeekly) – A rise in the gold price to \$2,300/oz “would not be surprising”, US Global Investors portfolio manager Ralph Aldis said on Wednesday. Aldis also told the Mining Indaba in Cape Town that, if history was an indicator, there might also be only five more months of recession. There were strong signals that gold should be added to investment portfolios.

While in the short term the gold price could pull back, gold was still a fairly safe investment in the longer term. It would not surprise him, Aldis said, if the gold price were to rise to \$2,300/oz. He based his only-five-months-more recession projection on the fact that, since 1945, recessions had averaged only ten months and the longest being 18 months. He contended that that the current recession had already been under way for 13 months, and therefore there might only be five more months to go, if history was anything to go by.

Even though retrenchments might continue as various companies downsized, the overall economy and the market might turn up in five months as banks put money

back to work and governments embarked on infrastructure projects. Aldis said, too, that it was not commodity demand that had fallen but rather the inability of shippers to secure credit from stricken banks to finance the shipping of commodities.

The world had many economic stimuli coming through in addition to seasonal cycles, with gold demand building up steadily from August. US Global followed government policies, as it was government policies that drove markets, as had been evidenced by the US Senate voting in favour of permission being granted for stock to be shorted in a market downturn, and not solely during market upturn.

Making it easy to short was a policy change that had contributed to the current economic impasse. He described the US government's decision to allow Lehman Brothers to fail as a “pretty dramatic mistake”, as that policy decision had resulted in the commercial paper market freezing, banks ceasing to lend to one another and the collapse of the market.

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ARCELORMITTAL SEES SUBSTANTIAL IRON-ORE PRICE FALL

February 11, 2009 (Reuters) – ArcelorMittal expects a “substantial” fall in 2009 annual contract prices for iron ore, Lakshmi Mittal, chairman and chief executive of the world’s largest steelmaker, said on Wednesday. “Iron ore prices will have to go down in view of the global economic crisis and low demand for steel this year,” Mittal said in a conference call after the company announced its results for the fourth quarter of 2008.

Slumping demand for steel has forced producers across the globe to cut production sharply, leaving the iron ore market with a glut of material and making it almost impossible for miners to achieve a price increase. A Reuters poll in late January showed Australian iron ore prices were expected to fall by 30 percent in 2009 annual contract talks after six years of consecutive price rises.

A possible fall in prices will mark an end to a bullish run for miners BHP Billiton and Vale, which control about

three quarters of the 800-million-ton annual market in seaborne iron ore. “Even suppliers, iron ore companies, do understand the need to revise the price downwards...There has to be a substantial reduction in price,” Mittal said. Collapsing steel prices and demand have knocked spot iron ore prices down by around 60 percent since last March but recent Chinese buying has lifted prices in major exporter India.

“We’ve seen that in the last two weeks, Chinese domestic demand has improved, which has allowed increasing requirement (for imports) in the Chinese market and iron ore spot prices have strengthened,” Mittal said.

Last week, the current spot price for iron ore with 63.5 percent iron ranged between \$68 and \$72 per tonne FOB, up by \$4-\$5 from a month ago, an official at the Federation of Indian Mineral Industries (FIMI) said.

URANIUM ONE SELLS 20% STAKE TO JAPANESE INVESTORS

February 12, 2009 (FinanciaAsia) – A Japanese consortium has bought a stake in the world’s tenth largest uranium producer and gained access resources in Kazakhstan. Canada-based Uranium One, the world’s tenth largest uranium producer, yesterday announced an agreement to sell a 19.95% stake to a Japanese consortium made up of the Tokyo Electric Power Company, Toshiba Corporation and the Japan Bank for International Cooperation. The stake will be sold by way of a private placement of 117 million shares worth C\$270 million (\$217 million) to the three Japanese firms.

The deal includes a long-term offtake agreement and will see the two parties form a strategic relationship. The Japanese consortium will have the option to buy up to 20% of Uranium One’s production as well as a right of first refusal to invest in any uranium mining project that Uranium One makes open to third parties. The buyers will also have the right to nominate two directors on Uranium One’s board.

The consortium has been described as a long-term investor: it has agreed not to sell its stake in the company other than by a general market distribution and will not

seek to increase its stake without gaining approval from Uranium One.

Uranium One is one of the world’s largest uranium producers with listings on both the Toronto and Johannesburg exchanges. It has interests in two uranium mines in Kazakhstan through two separate joint ventures, including a 70% stake in a joint venture that owns the Akdala mine, which is already in operation, and the South Inkai Uranium Project, which is still at the pre-commercial production stage; and a 30% stake in the Kharasan Uranium project.

In a written statement related to the deal, Jean Nortier, president and CEO of Uranium One, highlighted that the proceeds from the private placement combined with the \$185 million of cash on the company’s balance sheet would position it well for its growth and development. The deal is subject to customary approvals which are expected to be received by March 31.

CHINALCO AND ALCOA TO EXPLORE COMMERCIAL RELATIONSHIP

February 12, 2009 (Platts) – Chinalco and Alcoa said jointly Thursday that the two companies intend to explore opportunities to expand their commercial relationship by “identifying strategic ventures that will benefit from the companies’ complementary strengths in bauxite, alumina, aluminum and fabricated products.”

“Alcoa is a respected leader in our industry and a valuable friend. We intend to grow our friendship and find ways to complement each other’s business on a global basis,” said Xiao Yaqing, president of Chinalco.

Klaus Kleinfeld, CEO and president of Alcoa, highlighted some of those opportunities for a strategic relationship in a statement: “As governments stimulate their economies during the downturn, particularly infrastructure stimulus programs in China and the United States, the demand for high quality, high performing aluminum technologies will grow dramatically. And when the global economy recovers, the pent-up consumer and industrial demand will create a broad array of opportunities in both developed and developing regions for Chinalco and Alcoa.”

Stressing the advantages of aluminum to address the current megatrends of population growth, urbanization

and climate change, Kleinfeld in the statement said: “We estimate global aluminum demand will increase 6% CAGR over the next decade, with the highest growth in Asia.” Xiao highlighted his confidence that an expanded commercial relationship between Alcoa and Chinalco will have significant benefits for the two companies.

In connection with these matters, Alcoa and Chinalco have also entered into an agreement by which Chinalco will redeem the convertible note issued by Shining Prospect, a wholly-owned subsidiary of Chinalco, to Alcoa last year for the funding of Shining Prospect’s purchase of ordinary shares in the London-listed Rio Tinto. The original principal amount of the note would have been payable February 1, 2011. Under the terms of the agreement entered into Thursday, the note will be redeemed by Chinalco for a total of \$1.021 billion payable to Alcoa in three installments (over a period ending July 31, 2009), and Alcoa’s lien on and indirect interest in Rio Tinto shares held by Shining Prospect will end.

CHINA WANTS BIGGER ORE PRICE CUTS FROM BHP THAN VALE

February 12, 2009 (Bloomberg) – China, the world’s largest buyer of iron ore, will demand a bigger cut in prices from BHP Billiton Ltd. and Rio Tinto Group than from Brazil’s Cia. Vale do Rio Doce after shipping costs plunged, the nation’s steel association said. BHP and Rio almost doubled prices for their ore from Australia last year, exceeding the 71 percent gain Vale won because it was cheaper to ship the material to China from Australia than from Brazil.

Chinese steelmakers are pushing for the first reduction in seven years for benchmark contract iron ore prices as the global recession crimps demand from carmakers and builders. Prices for Australian iron ore may fall at least twice as much as those sold by Vale, Credit Suisse Group AG said this week.

“There’s speculation China wants the prices to move back to 2007 levels, which means BHP and Rio should give up the freight compensation they enjoyed last year,”

said Du Wei, head of iron ore research at Umetal Research Center. Shipping ore costs about \$55 a metric ton less from Australia than Brazil last June when Chinese steelmakers agreed to pay BHP and Rio a higher price. The difference has slumped to \$13.6 a ton yesterday on the Baltic Dry Index.

The contract price for Brazilian iron-ore fines may be unchanged or fall no more than 9 percent, while Australian fines may drop 20 percent, Credit Suisse’s Roger Downey said. Chinese steelmakers paid as much as \$127 a ton for benchmark iron ore lumps from Australia. Talks to settle 2009 benchmark contract prices started last month between producers and Chinese steelmakers.

Rio Tinto and Melbourne-based BHP Billiton are the two largest suppliers of iron ore from Australian mines. With

Vale, they account for three-quarters of trade in the steelmaking ingredient. China buys about half of the world's seaborne iron ore, London-based Rio said yesterday.

Chinese steelmakers are also negotiating a change to the format of the price talks, Shan said. Steelmakers want to

negotiate every six months rather than on an annual basis, he said. Mining companies agree in principle to more frequent price setting, though no accord has been reached, he said.

INDIA TRADE BODY SAYS NO GOLD IMPORTS SO FAR IN FEBRUARY

February 13, 2009 (Reuters) – Gold purchases by India, the world's largest importer of the metal, are on course to fall for the second month in a row with no imports so far in February because of high prices, the head of a trade body said on Friday. "Forget imports, whatever sale has happened, has happened from old stocks imported earlier," said Suresh Hundia, president of the Bombay Bullion Association. Gold imports in January plummeted 89 percent to 1.9 tonnes from 18 tonnes in the same month last year, he said.

Domestic prices in India have been hitting record highs over the past few weeks, as a weaker rupee added to the rise in world gold prices denominated in dollars. On Thursday, gold touched an all-time high of 14,824 rupees (\$304) per 10 grams on the Multi Commodity Exchange of India Ltd. Prices softened on Friday to 14 570 rupees per 10 grams by around 1030 GMT, as foreign markets slipped after topping \$950 an ounce the previous day.

Hundia said high domestic prices had triggered heavy sales of old jewellery by people, increasing the

availability of recycled gold while demand has been shrinking. Gold sales so far this month have been about 200 to 300 kg, far below the same period last year, Hundia said.

Though dollar-priced gold hit an all-time high in March 2008 at \$1 030,80 an ounce, the record run in India was caused by the rupee's 19,1 percent slide against the dollar in 2008. A bank dealer said demand had diminished after prices went above \$900 at the end of January.

However, demand could perk up when prices fall, independent analyst Bhargav Vaidya said. "I think in the full year, the rise or fall in imports could be not more than 10-15 percent," he said. The bank dealer said the next big buying could come ahead of the Akshaya Tritiya, an auspicious hindu festival, that falls on April 27.

MINERS DON'T NEED BANKS

February 13, 2009 (MineWeb) – While US Treasury Secretary Timothy Geithner continues to dither over details of the Financial Stability Plan, leaving markets in general to stumble on sideways, selected mining companies continue to raise fresh capital directly from investors. While bank bail outs have become commonplace in a number of countries, and all kinds of sectors have raised hands in appeals for non-bank bailouts, the mining sector has struggled on silently.

But the struggle tides may have turned, for miners at least. In the past few months, mining companies have raised at least USD 30bn by way of new equity issues (also known as rights or capital issues), bonds, loan notes, and, in some forced circumstances, sales of equity stakes

in operating entities. Old fashioned bank lending is rare, if seen at all.

The single biggest raising, at USD 7.2bn, was announced this week, when mining major Rio Tinto sold bonds to Chinalco, a far smaller company, but a significant player in the global aluminium sector. If the bonds are subsequently converted into equity, Chinalco's stake in the Rio Tinto group will rise to 18%. Chinalco, however, is also to spend USD 12.3bn buying direct equity stakes in some of Rio Tinto's best operating assets, such as Hamersley Iron.

Not so for Xstrata, one of the most acquisitive major mining stocks over the commodities supercycle between

2002 and 2008. In line with Rio Tinto, Xstrata is faced with a small mountain of debt; both groups also suffer under deeply depressed stock prices. But Xstrata has bit the bullet, and chosen to go ahead with a hugely dilutive rights issue set to raise nearly USD 6bn, of which USD 2bn will be used to acquire Glencore's "world-class, cash generative Prodeco coal operations in Colombia".

At the other end of the capital raising scale, a number of gold companies have been raising fresh capital as if nothing odd at all is going on in credit and equity markets. Seen as a group, gold stocks (and a very small cousin, silver stocks) are the single best performing equity subsector in the world, in a relative sense,

reflecting broad confidence in gold bullion, and also the price trading well within throwing distance of its record high, set in March 2008.

While Xstrata is seeking to raise nearly USD 6bn, its market value, or capitalisation, is a relatively modest USD 10.9bn, reflecting the huge extent to which the issue will dilute, when it goes through. Compare that to Newmont, a Tier I global gold stock, raising USD 1.1bn by issuing 30m new shares, equal to a modest 6% of its existing shares in issue, and a relatively modest amount of capital compared to its market value of USD 20bn.

CHINESE GROUP UPS MINING INVESTMENT IN SOUTH AMERICA

February 13, 2009 (MiningWeekly) – China's Shougang group, the country's fourth-largest steelmaker, has announced that it is going to invest \$1-billion in its Peruvian iron-ore mining subsidiary, Shougang Hierro Peru. This was announced by Shougang group President Wu Bin after a meeting with Peruvian President Alan Garcia. This investment will boost Shougang Hierro's production capacity to 10-million tons a year of iron-ore by late 2010. This will double the Peruvian operation's production.

Shougang has been active in Peru since 1993 and Shougang Hierro is a wholly owned subsidiary of the Chinese group. With its head office in Lima, Shougang Hierro is the largest iron-ore producer on the west coast of the Americas. It operates a mine with openpits, beneficiation plants and a port.

The mine and its associated primary and secondary crushing circuits are located at San Juan de Maracona, about 800 m above sea level and 14-km inland, while the beneficiation plants and the port are at San Nicholas. The mine currently has four openpits in operation, these being numbers 2 to 5 inclusive.

Also at San Nicholas are a balling and induration plant, a dewatering and filtering facility, a pellet feed production circuit and a sinter feed production circuit. The Peruvian company's product range comprises blast furnace pellets, direct reduction pellets, pellet chips, high-grade pellet feed, calibrated sinter feed, high-grade sinter feed and dolomite.

BOARD TO DECIDE IF MEXICO'S PENOLES STRIKE IS LEGAL

February 13, 2009 (Reuters) – A Mexican government labor board will determine whether a partial strike at Penoles' giant MetMex refinery is legal and if workers will have to return to their jobs, said government and company sources on Friday. One section of Mexico's national mining union shut down silver and gold refining on Sunday at the metals processing plant in northern Mexico, the largest in Latin America, affecting some 150 mines that send ore there – half of all the precious metals mines in the country.

A government labor board is currently reviewing the case and if the stoppage is found to be illegal, workers will

have to return to work if they do not appeal the decision, Hector Alcuia a spokesman for the labor ministry told Reuters.

Lead and zinc processing continues at the sprawling metals complex with the bulk of workers still operating, but around 300 laborers in charge of the final refining of precious metals and bismuth laid down tools to demand higher wages.

Penoles, which controls its precious metals unit Fresnillo, said if the strike drags on for much longer the company

will have to start looking for refining alternatives to meet client orders. The company says it is currently processing ore that arrives from the mines into other products, like dore bars, instead of refining them completely.

Both union and company representatives have said they are open to dialogue to resolve the dispute. Dozens of

contracts are being renegotiated in the coming weeks and the union says the mining industry, despite taking a hit from falling metals prices, can afford to pay workers more. Other union sections have agreed to pay rise deals so far this year.

BHP URGED TO REVIVE BID FOR UK'S RIO TINTO

February 14, 2009 (Daily Mail) – The rebellion over miner Rio Tinto's botched fundraising took a sensational new twist after it emerged that irate City investors are urging the company's arch rival to launch a new takeover bid. A top City institution told the Mail it has directly approached financial advisers of BHP Billiton to urge the Aussie giant to revive its aborted bid for London-based Rio.

Other rebels are seeking to convince former Corus boss Jim Leng to return to Rio and lead a rights issue and sell-off of key assets to BHP and other miners. Debt-laden Rio provoked an unprecedented City revolt on Thursday by agreeing to an alliance with Beijing-controlled aluminium firm Chinalco that would raise £13.5bn.

Yesterday emails were flying between a dozen City houses with significant stakes in Rio Tinto. Rio's chairman designate Leng resigned over the deal at the beginning of the week, but some institutions want to convince him to return. Many are calling for Albanese's head, saying he has been guilty of a series of strategic blunders, including the top-of-the-market purchase of

Alcan in 2007, the refusal to engage with BHP Billiton's hostile bid last year, and now the Chinalco deal. The Association of British Insurers on Thursday expressed 'serious concerns' and investors including Scottish Widows made their opposition public.

Shareholders would be supportive if BHP had to raise funds in order to pay for a revised Rio bid and restructure the firm's tattered balance sheet, he said. But other institutions are opposed to a fire-sale of the entire company, fearing that regulatory barriers could get in the way.

Rio directors were yesterday locked in meetings with top investors. A spokesman said: 'The senior independent director, chairman and chief executive are all in a process of engagement and discussion with shareholders.' Not all investors oppose the Chinese deal. One accused fellow investors of 'pious hypocrisy' over the deal and argued the Chinese alliance made sense given Rio's straitened circumstances.

OZ MINERALS SAYS WRITE-DOWNS MAY REACH \$2.8BN

February 14, 2009 (The Age – Australia) – Diversified miner OZ Minerals has flagged asset write-downs of up to \$2.8 billion due to sharp commodity price falls. The company – struggling to refinance more than \$1 billion of debt – is also facing the prospect that a rumoured buyer of its undeveloped Martabe gold project in Indonesia, Newcrest Mining, has apparently shied away from a possible deal.

Newcrest yesterday failed to confirm the rumours, but said Martabe's exploration potential was "not that great" after looking at it "from a distance". OZ Minerals is in talks to sell prized assets, including some or all of its large Prominent Hill copper-gold development in South

Australia, to help repay debt. OZ Minerals said the write-downs could total between \$2.3 billion and \$2.8 billion, and would be revealed in its 2008 calendar year report.

The report will be released on February 24, just three days before Oz Minerals' three debt facilities and a bridging finance facility of more than \$1 billion are due to expire. Between \$1.9 billion and \$2.2 billion of the write-downs will be impairments for current mines. They are also for development projects, advanced exploration projects, including in Canada, and deferred projects such as its Avebury nickel mine in Tasmania. Avebury was mothballed in December, less than six months after

production began. Other write-downs are tax-related or due to mark-to-market adjustment of investments.

OZ Minerals, which was formed through the merger of Oxiana and Zinifex last year, warned last month that it would book a loss on the sale of its non-core 7.8 per cent

stake in Nyrstar because it was divested for less than the purchase price. But the transaction eased its hefty debt burden by \$33 million.

CHINESE RAW MATERIALS COMPANIES STAY ON THE ACQUISITION TRAIL

February 14, 2009 (SeekingAlpha) – Although all the news lately has focussed on Chinalco's recent financing deal with Rio Tinto (RTP), Chinese raw material firms are still looking far & wide for new opportunities, as discussed in our December article : China stocks up on raw materials. Other state owned / controlled corporations are looking at South Africa and South America as well as assets in Australia. As there is flurry of activity and reporting on the Rio Tinto deal, a look at some of the other activities would be warranted.

China has a long history of investing in operations in South America; back in 1992, we saw the first venture outside of mainland China when Capital Steel (now Shougang) acquired the Peruvian state-owned iron ore mining concern HierroPeru. Needless to say, the rest is history, as we have seen Chinese state-backed institutions making deals on a global basis in oil, minerals and other strategic resources. At the same time, Shougang Concord (the international arm of Shougang Group), has also announced the acquisition of 12.5% of coking coal producer Fushan International Energy Group, thus allowing it to secure coking reserves at a knock down price. This mirrors the strategy that Mittal (MT) have been following for the last five years, morphing from a pure steel play into a fully integrated producer (ore, coke, smelting and rolling).

Carrying on with this mandate, Chinese concerns have invested significantly in the mid-west region of Australia in the last year. Sinosteel acquired Midwest Mining through a hostile \$1.47 billion takeover, defeating an attempt by local producer Murchison to merge the two companies, while Anshan Iron & Steel is increasing its stake in Gindalbie Metals from 12 per cent to 36 per cent. Shougang has also secured 40 per cent of Mt

Gibson Iron Ore, one of Australia's landmark ore mining firms.

This Australian activity has a knock-on effect too, discounting the Rio Tinto story. Sinosteel and Anshan are both equity shareholders in local operator Yilgarn, which is pushing to develop both port and rail facilities in mid-western Australia on the Oakerjee project. This has turned into a political quagmire at State level, as local interest vie with the Chinese backed plans over the \$2 billion project, as reported in The Australian.

Back to Peru, and Chinalco is not resting on its laurels. Rumours abound that it will be investing more than \$1.5 billion on construction of its Toromocho copper mine. Chinalco acquired all the outstanding shares in of the Peru Copper Corporation of Canada in August 2008, for a reputed \$860 million. It is estimated that Chinese firms are now committed to investing over \$6 billion in Peru's mining sector in the next five years.

The company's sales revenue rose 28 percent year-on-year to \$27.7 billion in 2008, while profit remained flat at \$1.1 billion. Revenue growth this year could run into some rough weather as prices of metals have been falling due to the economic slowdown, Zhou said, which would seem to be the spur for using acquisitions as a bolster to bottom line growth. This can already be seen as Minmetals is courting Chile and state-owned miner Codelco, the world's biggest copper producer, is working with Minmetals to develop new business and exploration opportunities in Latin America and in Africa.



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