
MINING SECTOR UPDATE

AUSTRALIA AND PAPUA NEW GUINEA

DECEMBER 2017

INTRODUCTION

Welcome to the December 2017 edition of the Mining Sector Update from Corrs Chambers Westgarth. Published each month, this briefing keeps you up-to-date with recent mining deals, market rumours, potential opportunities and relevant regulatory updates.

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IN THIS EDITION

1. Partner Bruce Adkins and Special Counsel Stuart Clague consider the proposed overhaul of Queensland's financial assurance regime for resource projects;
2. Partners Joshua Paffey and Andrew McCormack provide a guide to recent changes to Queensland's security of payment legislation;
3. A look at the financial implications if New Hope's New Acland Coal Mine Stage 3 Project does not proceed.

RECENTLY COMPLETED DEALS

Bounty Mining acquires Cook Colliery and other assets

As foreshadowed in our November 2017 edition, **Bounty Mining Limited (Bounty)** has acquired most of the assets of **Caledon Coal and Blackwater Coal Pty Ltd** (including the **Cook Colliery coal mine** and the **Minyango Coking Coal Project**) for a total of A\$31.5 million (with A\$6.7 million to be paid on completion and the balance to be deferred and paid over 18 months). In a media release dated 11 November 2017, Bounty confirmed that it had raised A\$17 million through an over-subscribed institutional placement to support the acquisition.

Bounty also announced a separate but related A\$10 million acquisition from **Cook Resource Mining Pty Ltd** of assets associated with the Cook Colliery. The acquisition grants Bounty full ownership of the Cook Colliery assets, which include a related mining lease, rail loop, wash plant and coal marketing rights.

Bounty expects to take possession of the assets in late November 2017, and to restart production at the Cook Colliery during the first quarter of 2018.

Whitehaven Coal secures 100% ownership of Tarrawonga Mine

ASX-listed **Whitehaven Coal Limited (Whitehaven)** has announced that it has signed a binding agreement under which Whitehaven will acquire **Idemitsu Australia Resources'** 30% stake in the **Tarrawonga coal mine**. On completion, Whitehaven will have 100% ownership of the mine.

Completion of the agreement is subject to a number of conditions being met, including regulatory approvals.

Altona Mining and Copper Mountain to merge

Canadian-based miner **Copper Mountain Mining Corporation (CMMC)** and **ASX-listed Altona Mining Limited (Altona)** have announced the execution of a merger implementation deed under which the parties agree to combine CMMC and Altona through a scheme of arrangement. Under the terms, CMMC will acquire the entire issued capital of Altona for consideration, valued at approximately A\$93 million.

Altona owns the undeveloped **Cloncurry Copper Project (the Project)**. According to a joint media release, the Project has a measured and indicated mineral resource containing over 0.95 Mt of copper and an inferred resource of 0.72 Mt of copper.



Aurelia Metals acquires Peak Mines¹

ASX-listed **Aurelia Metals Limited (Aurelia)** has announced that it has entered into a binding agreement with Canadian miner **New Gold Inc (New Gold)** under which it will acquire a 100% interest in **Peak Mines**, a gold, copper, lead and zinc operation located in Cobar, New South Wales. Aurelia will pay New Gold US\$58 million for the acquisition, which is to be funded through the combination of a A\$45 million debt facility and a A\$70 million capital raising.

Following the announcement of its Peak Mines acquisition, Aurelia separately announced that it has received firm commitments (from both existing shareholders and new investors) to raise the A\$70 million required to complete the acquisition and deliver a strong working capital position.

Peabody Energy completes sale of Burton Mine²

On 27 November 2017, **Peabody Energy (Peabody)** announced that it has completed the sale of its **Burton Mine** and related infrastructure to the **Lenton Joint Venture (LJV)**. LJV (which is 90% owned by ASX-listed **New Hope Corporation Limited (New Hope)**) will pay approximately US\$11 million for the acquisition, subject to a number of post-closing adjustments.

Following the sale, **Peabody** will also:

- have its asset retirement obligation reduced by approximately US\$41 million; and
- unlock approximately US\$30 million of restricted cash in support of such asset retirement obligation. This, when combined with the company's recently announced revolving credit facility, is expected to free up approximately US\$300 million in cash.

It was a busy end of the month for **New Hope** whose largest investor, ASX-listed **Washington H. Soul Pattinson and Company Limited (WHSP)**, also announced the sale of a 9.6% stake in **New Hope**. Under the sale, 80 million shares were sold to a number new Australian institutional buyers for a total of A\$176 million. WHSP will retain a 50.01% interest in New Hope.



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1. Corrs partner Sandy Mak led the team which advised New Gold in relation to this transaction.
2. Corrs partners Bruce Adkins and Robert Clarke led the team which advised Peabody in relation to this transaction.



MARKET RUMOURS AND OPPORTUNITIES

Hannans conducts capital raising to support asset growth and acquisitions

ASX-listed exploration company **Hannans Ltd** has announced a A\$2.5 million capital raising to support lithium exploration at **Forrestania** in Western Australia, and due diligence on potential acquisitions. Under a Share Purchase Plan, existing Hannans shareholders were given the opportunity to acquire up to A\$15,000 worth of new shares at a discounted price.

Struggling WICET the subject of takeover interest

The Australian Financial Review, citing unnamed sources, has reported that a consortium comprised of ASX-listed **Aurizon Holdings Limited (Aurizon)** and ASX-listed **Macquarie Group Limited (Macquarie)** and Canadian investor **Brookfield Asset Management (Brookfield)** have submitted a A\$4 billion bid to take control of the **Wiggins Island Coal Export Terminal (WICET)**, and one or more of WICET's source mines.

According to *The Australian Financial Review*, under the proposal Aurizon would take control of WICET's port operations, while Macquarie and Brookfield would seek to buy a number of WICET's source mines which may include **Glencore's Rolleston Mine** and **Wesfarmers Resources' Curragh mine**.

Citing undisclosed sources, *The Australian Financial Review* identified that "the deal was pitched as a 'whole of basin' proposal, requiring a new equity owner (Aurizon), new debt (likely arranged by Macquarie), and new take or pay contracts with the port's customers."

Aurizon confirmed in a press release dated 13 November 2017 that it has entered into preliminary discussions with WICET. Aurizon did not comment on whether it was acting alone or as part of a consortium. Macquarie and Brookfield have not commented.

According to *The Australian*, speculation is mounting that WICET part-owner Glencore may be planning to submit its own bid for the struggling export terminal. *The Australian* notes that, in order to succeed, Aurizon, Macquarie and Brookfield's consortium bid would likely need Glencore's blessing.



Finders Resources

The Australian has reported that **Eastern Field Developments**, a consortium comprised of **Procap Partners Limited, PT Saratoga Investama Sedaya Tbk and PT Merdeka Copper Gold Tbk** (the Consortium), has launched a hostile, A\$260 million bid to acquire ASX-listed **Finders Resources Limited (Finders)**.

According to *The Australian*, the Consortium, which currently controls 19.9% of Finders, is offering A\$0.23 cash per share, a price which values the company at A\$260 million on an enterprise value basis.

The Australian, citing PT Merdeka Copper Gold Tbk CFO David Fowler, reports that the takeover bid follows a failed attempt by the Consortium to sell their interest in Finders. Mr Fowler told *The Australian* that “*We are really between a rock and a hard place*” and that “*We either sell out, or we actively participate to try to realise more value.*”

In a market update release of 20 November 2017, Finders advised its shareholders to take no action in relation to the bid until a target statement, including an independent expert’s report as to the fairness and reasonableness of the bid, has been released by Finders.

Significant initial interest for Glencore’s Rolleston coal mine

The Australian Financial Review has reported that approximately 20 parties are believed to be showing initial interest in acquiring **Glencore’s Rolleston coal mine**, citing potential bidders as **Apollo Global Management, Macquarie Group** (as part of the unconfirmed consortium bid for **WICET** discussed above), resources investment house **AMCI** and a number of unnamed Chinese companies.

The **Bank of America Merrill Lynch** was reported by *The Australian Financial Review* to be seeking indicative bids for the Rolleston mine in the first week of December.

“We either sell out, or we actively participate to try to realise more value.”



REGULATORY UPDATES

“The type and the amount of the security required...will be determined by the scheme manager”

QUEENSLAND

Financial Assurance Regime to receive an overhaul

On 25 October 2017, the *Mineral and Energy Resources (Financial Provisioning) Bill 2017* (Qld) (the **Bill**) was introduced into Queensland Parliament and proposes significant changes to the financial assurance regime for resources projects in Queensland.

The Bill proposes to replace the existing financial assurance regime, which requires all environmental authority holders to provide a financial assurance (typically in the form of a bank guarantee) to the State, with a new regime which establishes a “financial provisioning scheme” (to be administered by a scheme manager) under which:

- a financial provisioning scheme fund will be created; and
- authority holders will be required to provide one (or, in limited cases, both) of the following types of security to the scheme manager:
 - an annual contribution into the scheme fund; or
 - a surety (in the form of a bank guarantee, insurance bond or cash deposit).

The type and amount of the security required to be provided by an authority holder under the new regime will be determined by the scheme manager applying a risk assessment methodology which takes into account the following five factors:

- 1 the “estimated rehabilitation cost” for the authority;
- 2 the “risk category” to which the authority is allocated by the scheme manager;
- 3 the “prescribed ERC amount” (A\$100,000);
- 4 the “total estimated rehabilitation cost” for the authority holder (or, if more than one holder, the nominated “relevant holder”) and its parent corporation, subsidiaries and controlled entities; and
- 5 the “fund threshold” (A\$450 million).

Corrs is currently compiling a comprehensive report which critically analyses the key elements of the new financial assurance regime. The report will be made available via our website.



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Critical changes to security of payment legislation passed

On 26 October 2017, the Queensland Government passed legislation that will overhaul the three key pieces of legislation governing the construction industry. The key changes incorporated within the *Building Industry Fairness (Security of Payment) Act 2017* include:

1. the introduction of Project Bank Accounts (**PBAs**) for certain construction projects;
2. the amendment and consolidation of the *Building and Construction Industry Payments Act 2004* (**BCIPA**) and *Subcontractors' Charges Act 1974*;
3. amendments made to the *Queensland Building and Construction Commission Act 1991* (**QBCC Act**); and
4. the introduction of penalty provisions to enforce compliance with the Act.

A guide to the key changes has been prepared by Andrew McCormack (Partner), Joshua Paffey (Partner), Scott Francis (Special Counsel) and Annabel Baker (Associate).



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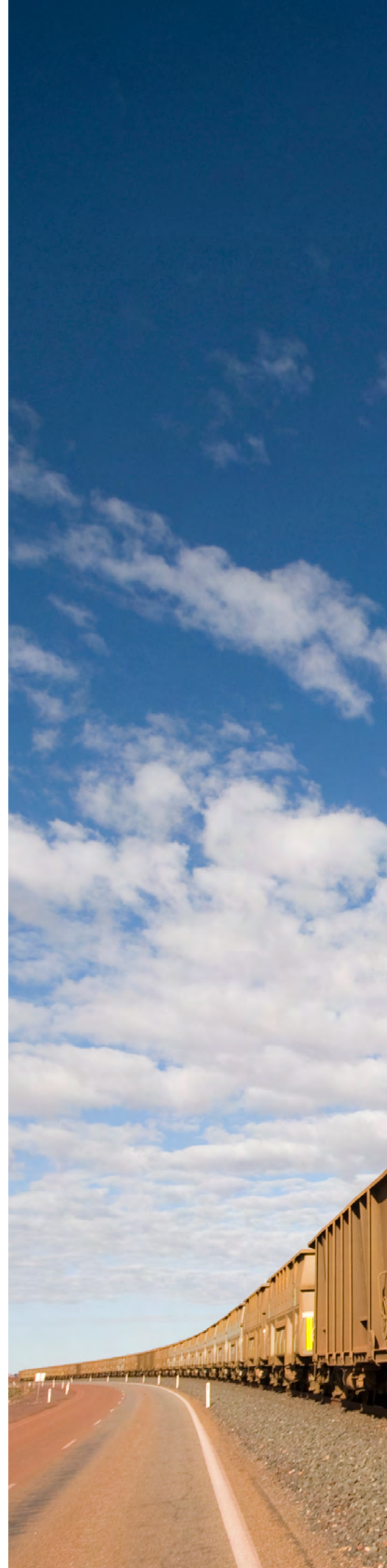
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OTHER NEWS

New Hope releases findings of Ernst & Young's New Acland Stage 3: Financial Impact Study

ASX-listed **New Hope Corporation Limited (New Hope)** has released the findings of an **Ernst & Young** report commissioned by New Hope – the *New Acland Coal Mine Stage 3 Project: Financial Impact Study* (the **Report**). The Stage 3 Project mine expansion proposes to increase the surface area and production capacity of the mine, and extend its operating life by approximately 12 years (from 2020 to 2032).

The purpose of the Report is to determine the financial implications for key stakeholders and the local economy if the project does not proceed. It claims the Australian economy stands to lose almost A\$7 billion in total receipts if the Stage 3 Project does not proceed, and the **New Acland mine** closes by mid-2020.

The Report's release follows a recommendation from the Land Court of Queensland that the Stage 3 Project expansion not be approved on the basis of environmental impacts, including groundwater and noise. A final decision by the Queensland Government is expected in early 2018.

Chinese coal imports fall sharply during October

According to the *IHS Energy Australian Coal Report*, China's coal imports fell by 21.28 Mt (down 21% from 27.08 Mt in September) during the month of October. The *IHS Energy Australian Coal Report* cites congestion at discharging points and increased customs clearance times as the potential drivers behind the fall.

Work commences on Adani's Carmichael project

The Australian has reported that **Adani** has commenced preliminary work on road infrastructure and the 388km rail line which will service its **Carmichael Coal Project** (the **Project**), before finance has been secured. As reported in our November Edition, it is understood that Adani aims to have finance for the Project tied up by March 2018.

Gascoyne Resources seeks to raise A\$20 million

According to *The Australian Financial Review*, ASX-listed gold exploration and development company **Gascoyne Resources Limited** is seeking to raise A\$20 million for the purposes of "exploration and development of Gascoyne's *Dalgaranga and Glenburgh Gold Projects*, and for working capital."

“the Australian economy stands to lose almost A\$7 billion in total receipts if the Stage 3 Project does not proceed”





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