

mine**life**

WEEKLY RESOURCE REPORT by Gavin Wendt



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Gold no “slam-dunk sell” in China as aunties pounce

According to a Bloomberg story this week, Yang Cuiyan, a 41-year-old housekeeper from Anhui province, is one reason China is poised to topple India as the world's top consumer of gold even as investors desert the metal. Standing outside Beijing's busiest jewelry store, wearing a thick coat against the autumn chill, she clasps a gold necklace that cost her 10,000 yuan (\$1,642), or five months' wages.

“I don't know anything about the stock market and I don't have enough money to buy property, so I figured gold is the safest choice,” she said. “I can put it on when I go back home to show everyone that I'm doing well.”

According to Bloomberg, “Yang, who made the 1,000km journey to the capital from her rural home to visit relatives and shop, is one of the legions of middle-aged Chinese women, respectfully referred to as aunties, who bought coins and jewelry this year, bringing support to a market shunned by many professional investors who began doubting the metal as a store of value.”

Bullion consumption in the world's second-largest economy will surge by 29% to a record 1,000 metric tons during 2013, according to the median of 13 estimates from analysts, traders and gold producers in China surveyed by Bloomberg News. Demand that may ease by 2.4% in 2014 from this peak still points to purchases greater than any other nation and more than the US, Europe and the Middle East combined.

China's demand for jewelry, bars and coins rose by 30% to 996.3 tons during the 12 months to September, whilst usage in India gained 24% to 977.6 tons, according to the London-based World Gold Council. India was No. 1 for calendar 2012.

Net gold imports to China via Hong Kong more than doubled to 826 tons during the first nine months of the year, according to data from the Hong Kong Census and Statistics Department. Global gold ETP holdings fell by 29% this year, reaching the lowest since 2010 last week, whilst more than \$64 billion was wiped from the assets, according to Bloomberg data.

China may allow more companies to import and export gold next year as it seeks to open its financial markets, according to draft rules released by the central bank on Sept. 30. It's considering allowing foreign financial institutions and companies that produce more than 10 tons of gold a year to import and export.

"We can't sell gold now in China produced in our overseas mines," said Lan Fusheng, vice chairman at Zijin Mining Group Co., China's largest gold miner by market value. "We would definitely welcome this change." The company has projects located in Tajikistan and Australia and produces between 6 and 7 tons outside of China annually.

The People's Bank of China, which imports gold for foreign-exchange reserves, hasn't given an update on its holdings since April 2009, when they stood at 1,054 tons. China's government is likely to have accumulated about 300 tons of gold to diversify the state reserves during the first six months of the year, said Philip Klapwijk, the founder of Precious Metals Insights Ltd.

Central banks added almost 535 tons to reserves last year, the most since 1964, and may buy a further 350 tons this year, the WGC estimates. Russia raised bullion reserves about 57.4 tons this year, while Kazakhstan added 20.3 tons and South Korea's climbed by 20 tons, according to Bloomberg calculations based on International Monetary Fund data.

In Shanghai, China's centre for gold trading, Malca-Amit Global earlier this month opened a vault large enough to store 2,000 tons of the metal, as well as diamonds and jewelry. The company's Hong Kong facility, which can hold 1,000 tons, opened during September.

While China overtook South Africa to be the world's largest gold producer in 2007, domestic output failed to keep up with the nation's consumption, according to Shanghai Leading Investment Management. Production of 403 tons in 2012 compares with domestic demand of 776 tons, according to the China Gold Association.

"In China, you look around and see very few places to put your money," said Duan Shihua, a partner at Shanghai Leading Investment Management Co. "With the share market down and the government nudging people away from real estate, gold will remain a favored choice."

Legend Mining (LEG) – Maintain Speculative Buy around \$0.01

A well-established and professionally run exploration company, which has just negotiated the sale to an Indian group of its flagship Ngovayang project in Cameroon, West Africa for consideration of \$17m.

Corporate Details

Status: Grassroots Explorer
 Size: Small Cap
 Commodity Exposure: Gold
 Share Price: \$0.01
 12-month Range: \$0.007 - \$0.021
 Shares: 1.96b, Options: 1.2b
 Top 20: 53%
 Net Cash: \$9m
 Market Value: \$20m



Key Parameters	Rating (✓ out of 5)	Quarterly Statistics
Management Quality	✓✓✓✓✓	Q3 2013 Exploration Spend: \$0.506m
Financial Security	✓✓✓✓✓	Q3 2013 Admin Spend: \$0.472m
Project Quality	✓✓✓✓✓	Exploration Spend 52%, Admin Spend 48%
Exploration / Resource Potential	✓✓✓✓✓	Q4 2013 Forecast Exploration Spend: \$0.5m
Project Risk	✓✓✓✓✓	Q4 2013 Forecast Admin. Spend: \$0.4m

We introduced Legend Mining to our Portfolio during April 2011 with a Speculative Buy recommendation around \$0.052, accumulated further stock during late 2011 around \$0.029 and more recently during September 2013 we accumulated additional stock with a Spec Buy recommendation around \$0.013. The company has represented one of our favourite African exploration exposures because of the perceived upside potential of its vast Ngovayang project area in Cameroon, West Africa.

The company's 90%-owned Ngovayang project encompasses three exploration tenements with a total coverage of 2,469 sq km in the southwestern region of Cameroon. The commodity that has historically received the most attention within its project area is iron ore, as it has the very real potential to host vast reserves of high-grade magnetite ore. The project is also well serviced by existing infrastructure, lying within 100km of the coast between the international airport cities of Yaounde and Douala.

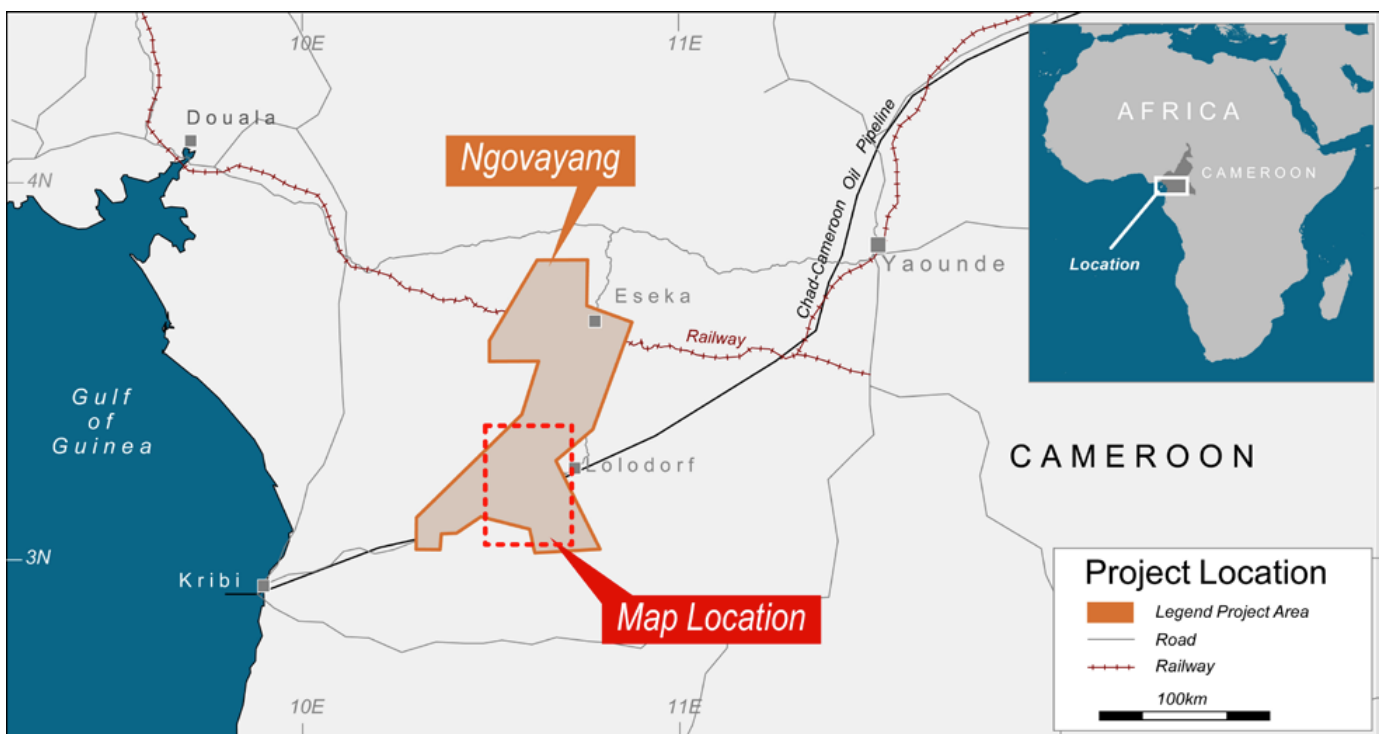
Despite the trials and tribulations of the market, it's nice to see that the inherent value with the Ngovayang project is now being realized, with the announcement today that Legend has entered into a Share Sale and Debt Assignment Agreement (SSDAA) with a wholly-owned subsidiary of India's Jindal Steel and Power, for cash consideration of A\$12 million upon completion of the transaction and a further A\$5.5 million within 10 business days of the execution of a Mining Convention between Jindal and the Government of Cameroon.

Sale Agreement

To quote Legend's Managing Director, Mark Wilson, "The absence of direct-shipping ore at the project, coupled with the current state of global financial markets has put the further development of the project beyond the reach of an exploration company like Legend. Jindal's proposed investment will be a great boost for the project.....and will allow Legend to pursue new opportunities."

We believe the transaction is a strong outcome for the company and its shareholders, particularly in the context of the current tough business environment.

The boosting of the company's cash reserves by \$17.7 million from \$9.8 million currently to potentially \$27.3 million (if both phases of the deal are completed), positions Legend to examine and secure opportunities more appropriate to a company of its modest size. These could involve advanced resource opportunities, or early-stage situations where the company can apply its exploration and value-adding skills.



Sale Attractions

There is no certainty that Legend could develop a mining operation on the Project. In particular, there are a range of risks that an owner of the project faces in developing such operations. The directors of Legend consider that these risks outweigh the potential rewards to Legend shareholders of pursuing the project further.

Secondly, market sentiment towards companies developing West African iron ore projects has reduced markedly over the past 12 - 24 months. Legend makes the point that share prices of its ASX-listed peer group that are developing West African iron ore projects have declined on average by 68% over the past 24 months.

Finally, the directors of Legend intend to utilise the proceeds of the disposal, along with its existing cash reserves and liquid investments, to continue its ongoing program of reviewing a range of new opportunities. At the same time, the sale removes Legend's exposure to the considerable downside risks associated with exposure to iron ore price volatility and exploration costs on such a large scale.

The only potential downside to the deal from our perspective is the potential for Legend to not receive the Tranche 2 A\$5.5 million payment, as the condition for payment may not be satisfied. Furthermore, the Tranche 2 payment is not indexed for inflation, so its value will most likely erode over time.

Even so, the base-case A\$12 million payment alone represents a solid outcome for shareholders and will put Legend in a highly cashed-up \$21 million position (compared to current market value of \$20 million) at a time when advanced opportunities are increasingly available. These situations are struggling to attract exploration and appraisal funding, thus providing opportunities for cashed-up companies like Legend.

Sale Pathway

The Transaction is conditional upon the following approvals being obtained:

- Legend shareholders in an ordinary meeting
- Reserve Bank of India
- Legend directors who hold shares
- Specific approvals and confirmations by the Cameroon Government
- Camina, which holds the residual 10% stake in the project

If these conditions are not satisfied within 150 days of the agreement execution, the transaction can be terminated by either party. Jindal has the right to match any rival superior offer that might emerge, but a break fee of A\$700,000 would be payable by Legend to Jindal if a superior offer is accepted.


For the period ending on the earlier of the completion date or 180 days from execution of the Share Sale and Debt Assignment Agreement (SSDAA), Jindal is prevented from acquiring Legend shares that would give it a shareholding of more than 9% in Legend. This standstill will cease if a third party announces a takeover bid for Legend, or an intention to acquire an interest in more than 50% of Legend, or the project (directly or indirectly).


Summary

Legend Mining's soon-to-be enhanced financial status leaves it is superbly placed to capitalize on opportunities more suited to its size and skill base. The company's cash position will leap from \$9 million to \$21 million following completion of the deal, which more than covers its current market value. The company has a committed exploration team that has managed to maintain consistent exploration activity and add value with respect to its Cameroon projects despite a lack of market recognition. Given our consistent support for the company, we maintain our Spec Buy recommendation on Legend Mining around \$0.01.

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MineLife Portfolio: Please refer to our Portfolio page for a full listing of all our stocks held, including purchase prices and dates.



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