

**CHALLENGES AND OPPORTUNITIES
IN CHINA**

Written by:

Kim Willey and Brian Abraham

Fraser Milner Casgrain LLP
15th Floor, 1040 West Georgia Street
Vancouver, BC V6E 4H8

Telephone: 604-687-4460

Facsimile: 604-683-5214

Montréal

Ottawa

Toronto

Edmonton

Calgary

Vancouver

New York



FRASER MILNER CASGRAIN LLP

www.fmc-law.com

Canadians have recently shown a great deal of interest in investing in potential mining opportunities in China. Such investment opportunities raise the following distinct legal challenges for Canadian investors:

1. Differing Legal Systems

As the legal system in China is in its infancy by Western standards, principles that Canadians often take for granted, such as clearly developed land and mineral title systems and transparent determination of ownership rights, are not necessarily available in China. The Chinese government (the Peoples Republic of China) is essentially the owner of all of the mineral rights and it grants permits for the development of projects and also approves the entering into of agreements with foreign entities by local Chinese corporations. Due to the challenges with the Chinese legal system, obtaining an opinion as to ownership of land and/assets will often be a complex, time consuming process. In order to effectively navigate this process and to successfully invest and operate in China, it is imperative that Canadian companies have a strong partnership with a local Chinese entity.

2. Business Culture

Another major obstacle to development in China is the Western approach to business. In the West, parties will negotiate and reach an agreement, which in most cases is considered legally binding by all parties. Under the Chinese system negotiations may continue for long periods of time and matters which may appear to have been agreed upon in fact may only have been acknowledged by the Chinese parties to the negotiations and may reemerge later as points of contention. This process can result in misunderstandings that may be frustrating to Canadian investors. It is important as part of the negotiation process that Chinese partners feel comfortable with their Canadian business partners in any transaction. Canadian investors should take time to understand the Chinese culture surrounding negotiations (Chinese language skills are a valuable asset in this respect) and should recognize that consensus building is a significant part of entering into any agreements with Chinese companies.

3. Focus on Western Technology

When entering into business relationships with Chinese organizations, Canadian investors should be aware that Chinese organizations are very enthusiastic about acquiring Western mining technology and techniques for both exploring and developing mines. Accordingly, agreements will often be heavily weighted towards allowing Chinese organizations to use and gain control of such technology and techniques.

4. Regulatory Process

There are many layers of organizations that must be considered by Canadian investors when entering into agreements regarding Chinese properties and often more than one agency will have to be consulted regarding the development of such properties. The permitting of development projects requires local knowledge and expertise. For example, in the West mines can consist of more than one metal and a permit for the mine usually encompasses all metals whereas the situation may not be the same in China. Canadian investors should also consider the issues surrounding the right to sell concentrates and other products produced from Chinese mining operations. Before such products may be sold, there may be significant logistical and regulatory matters to be addressed. Again, partnering up with a local Chinese entity is crucial for a Canadian investor wanting to successfully navigate through the Chinese regulatory system.

5. Logistical Challenges

Additional factors to be considered by Canadian investors are the logistical challenges of operating in China, where mining operations may be in remote regions, far from reliable and accessible transportation routes. The location of the project may pose significant transportation issues with regard to, for example, the shipping of concentrate and products. A careful analysis of all aspects of the feasibility of the exploration, development, and production process is required before Canadians should consider investing in a Chinese project.

6. Access to Information

The data banks and history of operations that are commonly available in the Western world are generally not available regarding Chinese projects. Consequently, while the geology and the engineering on Chinese projects are by and large of a high quality, Canadian investors may find the review of such data to be somewhat laborious. Adequate time and resources should be reserved for this process.

7. Employment and Environmental Issues

With respect to existing Chinese operations, Canadian investors should recognize that is that employment is very important to the owners of such operations and, for that reason, the mechanization process that we take for granted in the Western world is not always necessarily whole heartedly embraced by Chinese operators. This may also prove to be an issue in obtaining permits and local community and government support for new projects. Additionally, Canadian investors may be concerned over employment at mine sites, as the Chinese environmental standards are generally

not as stringent as we may be used to in Canada and safety and other occupational health matters tend to have lesser significance in Chinese mining operations.

MONTREAL

1 Place Ville-Marie
Suite 3900
Montréal, QC H3B 4M7
Tel (514) 878-8800
Fax (514) 866-2241

OTTAWA

Suite 1420
99 Bank Street
Ottawa, ON K1P 1H4
Tel (613) 783-9600
Fax (613) 783-9690

TORONTO

1 First Canadian Place
100 King Street West
Toronto, ON M5X 1B2
Tel (416) 863-4511
Fax (416) 863-4592

EDMONTON

2900 Manulife Place
10180 - 101 Street
Edmonton, AB T5J 3V5
Tel (780) 423-7100
Fax (780) 423-7276

CALGARY

30th Floor, Fifth Avenue Place
237 - 4th Avenue SW
Calgary, AB T2P 4X7
Tel (403) 268-7000
Fax (403) 268-3100

VANCOUVER

15th Floor
The Grosvenor Building
1040 West Georgia Street
Vancouver, BC V6E 4H8
Tel (604) 687-4460
Fax (604) 683-5214

NEW YORK

Suite 1528
One Rockefeller Plaza
New York, NY 10020
Tel (212) 218-2995
Fax (212) 218-2972



FRASER MILNER CASGRAIN LLP

www.fmc-law.com