PwC Capital Markets Flash

Volume III • Issue 4 • Special Mining Industry Briefing

February 25, 2010

Let the gains begin?

This week, in conjunction with PwC's sponsorship of the Prospectors and Developers Association of Canada convention, we are pleased to bring you our special mining industry briefing.

Before we delve into the details, we briefly turn to market activity. Since our last Flash, equity and credit markets have trended upward, seemingly immune to recent weak economic data and continued sovereign debt concerns. M&A and capital raising activity continued at a healthy pace with a number of notable IPOs and M&A deals announced this week.

	Feb 25, 2010	Crisis Extreme	Sept 1, 2008	Pre-crisis Extreme[1]	Movement since Dec 10, 2009
CDN$/US$	$0.944	$0.771	$0.936	$1.091	▲
S&P 500	1,103	677	1,278	1,565	▲
S&P/TSX	11,631	7,567	13,300	15,073	▲
LIBOR[2]	0.25%	4.82%	2.81%	1.11%	–
TED Spread[3]	0.14%	4.64%	1.10%	0.14%	▼
OIS Spread	0.15%	1.85%	0.47%	0.14%	▼
S&P/LSTA[4]	1,453	895	1,293	1,335	▲
CBOE VIX[5]	20	81	21	10	▼
Baltic Dry Index[6]	2,707	663	6,691	11,793	▲
WTI Crude Oil[7]	$77.92	$33.87	$111.55	$146.85	▲

Source: Bloomberg

1. Over five-year period.
2. BBA US LIBOR, three month.
3. Difference between rates on interbank loans and three month US Treasuries. Indicator of perceived credit risk.
4. Mirrors market weighted performance of leveraged loans. Tracks returns in leveraged loan market.
5. An expectation of the market's 30-day volatility, measured by tracking the money calls on companies in the S&P 500. Historically, VIX values greater than 30 are associated with high volatility and values below 20 are associated with low volatility.
6. An indicator that predicts future economic activity by measuring global shipping supply and demand for commodities, such as building materials and coal.
7. West Texas Intermediate (WTI), also known as Texas Light Sweet, is a type of crude oil used as a benchmark in oil pricing and the underlying commodity of New York Mercantile Exchange's oil futures contracts.

Highlights in this issue

1. Capital was plentiful for miners in 2009:
   a) Mid-tier and senior miners raised record levels of equity capital in Canada via secondary and supplementary offerings and private placements.
   b) It was a record year for sector bond issuances, albeit this was only a viable option for established miners able to tap international exchanges.
   c) Most miners, especially juniors, continued re-employing the use of alternative financing structures, consistent with pre-crisis historic precedent.
2. M&A in the mining sector remained sluggish in 2009: deal values and volumes remained well below peak levels.
3. Going forward, we expect a blockbuster year for sector M&A as miners flush with cash from recent financings begin to deploy capital. Further, we anticipate that continued equity market strength will translate into increased access to equity capital for juniors as well as a tepid re-emergence of sector IPOs and project spinoffs.
4. We caveat our outlook by stressing that commodity market strength is underpinning capital markets activity. This begs the question: if fundamentals don't catch up with expectations, will the "big bets" being made in the mining sector today pay off tomorrow?

Deals

Notable Economic News

Monetary Policy & Inflation

- The US Federal Reserve raises its *discount* rate by 25 bps, spooking markets despite the fact Ben Bernanke alluded to the move in an earlier statement. Increasing the discount rate marks the beginning of a normalization process in the liquidity programs of the Fed, but does not yet signal a tightening of monetary policy. Not to be confused with other rates, the discount rate is the rate at which banks can borrow directly from the Fed and under normal conditions is used only as an emergency facility.
- Deflation continues in the United States with consumer prices falling 2.6% year-over-year and core prices falling month-over-month for the first time since 1982. Despite recent exit-strategy rumblings from the Fed, it is difficult to see any near-term action on interest rates while core prices trend downwards and unemployment hovers near 10%. As Bill Gross of PIMCO puts it:
    - *"Let's face it, the Fed is looking at a number of fundamental factors ... the output gap, the unemployment rate at 10%—plus or minus—and the substantial amount of operating capacity excess. I don't think the Fed dares increase the fed funds or policy rate..."*
- In contrast to the US, prices in Canada continue to trend upward as the economy recovers. Canadian Consumer prices increased 1.9% year-over-year in January. The Bank of Canada's preferred core inflation measure remains extraordinarily well anchored to the Bank of Canada's target, registering 2% year-over-year in January.

Canadian Economic Activity

- Canadian retail sales edge up 0.4% in December, helping to reinforce the economic recovery. This marks the ninth increase in retail sales over the past 12 months in 2009.
- The Canadian manufacturing sector ended 2009 on a positive note with shipment volumes rising 1.6% in December. However, manufacturing inventories continue to decline and the sector remains constrained by weak US demand and a high loonie.
- Rules governing down payment requirements for investment properties and qualifying limits for new borrowers are tightened as the Federal Government takes steps to cool speculation in the Canadian housing market.
- Some relief on the Canadian unemployment front is expected in early 2010 as 6000 infrastructure projects are approved by the Federal Government.

Exchange Rates

- Contagion fears stemming from fiscal instability in Greece places downward pressure on the Euro and a spike in the price of credit default protection for weak Euro members like Portugal, Spain and Ireland.
- The value of the Canadian dollar vis-à-vis the US has been held lower than many economists had originally forecasted for Q1 in light of a weaker Euro and a flight to US dollar assets. After reaching as high as 97.7 cents in January, the loonie has drifted between 93 and 96 cents against the US dollar in February but has appreciated significantly against the Euro, rising by as much as 6% from the beginning of January.

Notable M&A

- RONA acquires the assets of Plomberie Payette & Perreault, a Quebec-based company specialized in the distribution and retail sales of finishing plumbing products. *"We're very pleased with this acquisition, which is another step toward achieving RONA's objective of establishing a national platform in the commercial and professional market. This transaction, a breakthrough for Noble Trade, our subsidiary specialized in the Ontario plumbing market, also represents the first step in our development plan for this market in Quebec,"* said Michael Storfer, vice president of RONA's Commercial and Professional Market division.
- Nutriart, a Quebec-based chocolatier, acquirers candy icon Laura Secord from two US private equity investors—Gordon Brothers Group and EG Capital Group—for approximately $20 million. Laura Secord has over 1,000 employees across 128 retail stores in seven provinces. Annual sales are reported to be approximately $80 million. Jean and Jacques Leclerc, Nutriart's owners, claim the acquisition will substantially increase chocolate production in Quebec City and will also permit Nutriart to produce finished goods for sale in Laura Secord stores.

Deals

- Yellow Pages Group completes three acquisitions to expand its network of Canadian “virtual properties”:
  - 100% purchase of Clear Sky Media, owner of three major online shopping destinations: RedFlagDeals.com, PriceCanada.com and Scarlett Lounge.
  - The brand and domain names of 411.ca and an equity interest in 411 Local Search Corp (the parent company). 411.ca is the most visited online local search engine in Canada.
- California-based solar panel manufacturer SunPower Corp announces it will acquire European solar power plant developer SunRay Renewable Energy for $277 million. The deal is considered by some analysts to signal the start of a long-expected consolidation in the solar industry. SunPower plans to pay $235 million in cash and $42 million in a letter of credit and promissory notes. The deal will provide SunPower with a project pipeline of solar photovoltaic projects totaling more than 1,200 megawatts in Italy, France, Israel, Spain, the United Kingdom and Greece. The pipeline includes projects in various stages of development.
- Printing services company R.R. Donnelley & Sons agrees to acquire Bowne & Co, a shareholder and marketing communications services company, for approximately $481 million in cash. R.R. Donnelley's offer values Bowne & Co. at a 65% premium over the stock's closing price immediately preceeding the deal announcement
- Carlyle Group, announces that it had formed a partnership with Fosun Group of Shanghai, one of the largest non-state owned Chinese conglomerates. Fosun Group of Shanghai, which has holdings in steel, mining, pharmaceuticals and real estate, is Carlyle’s latest push into China and another indication of the growing role that Chinese companies are seeking to play in global deal-making. The announcement comes on the heels of another Carlyle agreement to form a separate undisclosed renminbi-denominated fund with the Beijing government.

Notable Capital Raises

- The 2010 “IPO comeback” anticipated by many analysts is already underway:
  - The National Post reports that TransGlobe Property Management will sell shares in an IPO valued at as much as C$250 million. According to the Post, other real estate-related IPOs are also being considered in Canada.
  - California-based ISE, a leading developer, manufacturer and distributor of heavy duty hybrid-electric drive systems, completes a $20.7 million IPO on the TSX. The offering marks the first cleantech IPO on Canada's main exchange since July 2009. *"ISE is an excellent example of a US-based company that has successfully accessed the capital it needs on Toronto Stock Exchange,"* said Kevin Cowan, president TSX Markets and Group Head of Equities.
  - Dai-ichi Mutual Life Insurance, Japan’s second-largest life insurer, announces plans to sell approximately ¥1.07 trillion ($11.7 billion) of shares in an IPO, with a planned listing on the Tokyo Stock Exchange on April 1. Dai-ichi is set to be Japan’s largest initial public offering since mobile phone company NTT DoCoMo went public in late 1998.
- Canadian debt capital market conditions continue to be favourable for issuers. The year-to-date total for corporate bond issuance for the week ended February 12, 2009 was approximately C$9.09 billion compared with C$3.98 billion at this point in 2009 (according to data compiled by Bloomberg). Recent issuances include:
  - National Bank of Canada raises C$500 million from an issue of five-year deposit notes, priced at 69 bps over BAs for a yield of 3.147%. The bonds carry a coupon of 3.147%.
  - Consumers’ Waterheater Operating Trust raises C$240 million from an issue of three-year bonds, pricing the offering at 327bps over BAs for a yield of 5.25%.

Mining Industry[1] – In Focus

Let the gains begin?

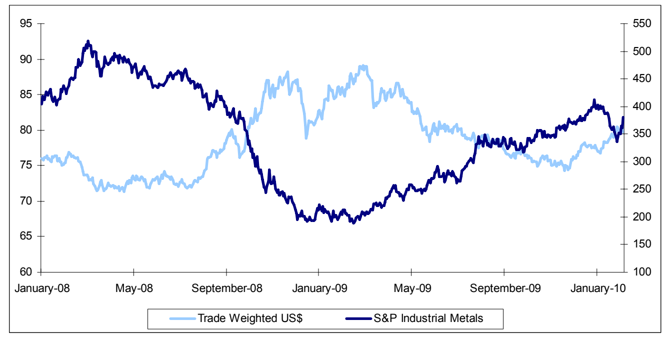
This week, in conjunction with PwC's sponsorship of the Prospectors and Developers Association of Canada (PDAC) conference, we are pleased to bring you our special mining industry briefing, offering the PwC Mining Group's perspective on capital markets.

Fears of a pullback in Asian demand for industrial commodities recently interrupted a year-long rally in most base metal prices. Perhaps the markets are concerned about price / inventory dynamics: during the past two years, most base metal inventories have been accumulating at a rapid clip. Base metal prices, on the other hand, have behaved irrationally, descending and ascending precipitously based on speculation. As set out in the accompanying commodities snapshot, since January 2008:

- Zinc prices have fallen by 7%, outpaced by LME inventories which rose by 461%;
- Nickel prices fell by 26%, outpaced by LME inventories which rose by 244%;
- Aluminum prices fell by 14%, outpaced by LME inventories rose by 389%; and
- Copper prices actually rose by 3% despite the fact that LME inventories rose by 178%.

The disassociation of price from inventory is due in part to the fact that markets are discounting mechanisms, but it also reflects an increasingly common view that base metals, like gold, can be a store of value in an environment conducive to inflation and US dollar depreciation. Witness the strong negative correlation between the trade-weighted US dollar and the Standard and Poor's industrial metals index, set out in the graph on the right.

Trade Weighted US$ vs S&P Industrial Metals Index



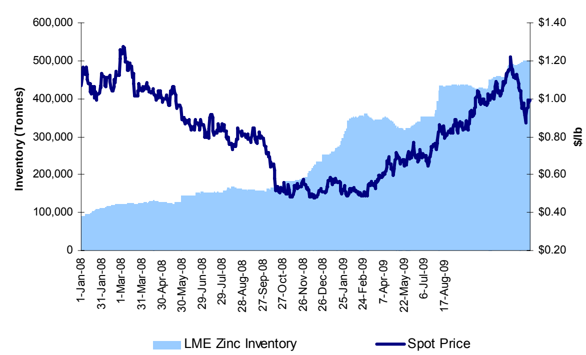
Sources: Bloomberg, PwC analysis

Unsurprisingly, inflation and currency fears have also supported a two year tear in the price of gold. The precious metal has been trading above its symbolic $1,000 threshold since September 2009.

The capital markets' impact of this state of affairs is far reaching:

Current commodity market strength underpinned record levels of equity and debt capital financings in 2009, setting the stage for a potential blockbuster M&A year for the sector in 2010. While we are cautiously optimistic, we open by stressing a key risk. If fundamentals, which still lag expectations, don't catch up with markets, it is questionable if the "big bets" being made in today's market will pay off tomorrow.

Commodities Snapshot – *The halfpipe event…*



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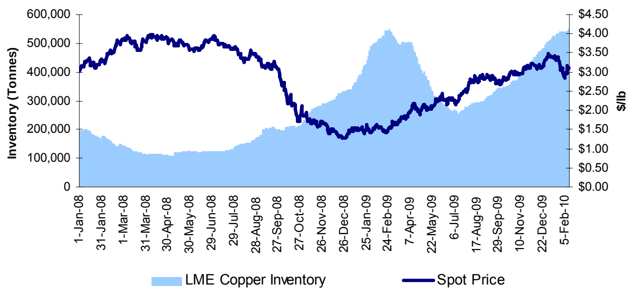
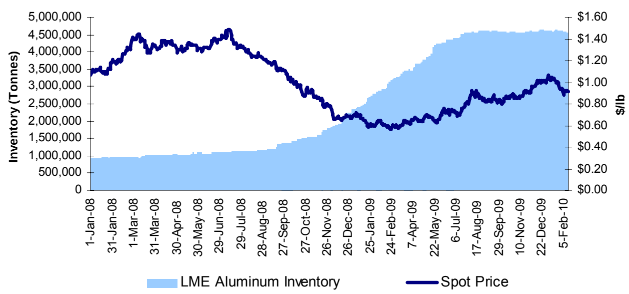
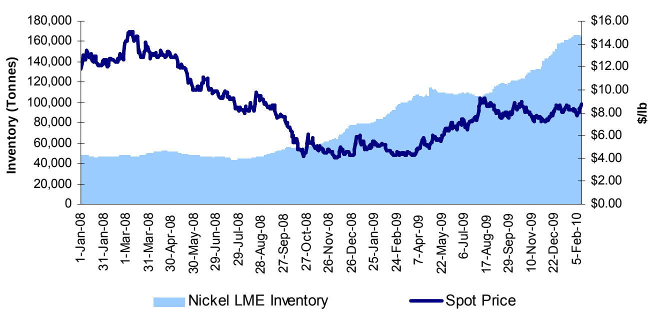
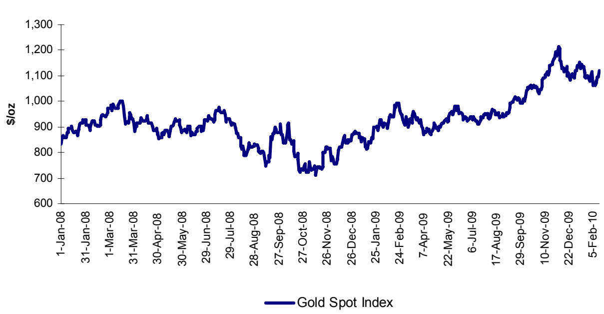








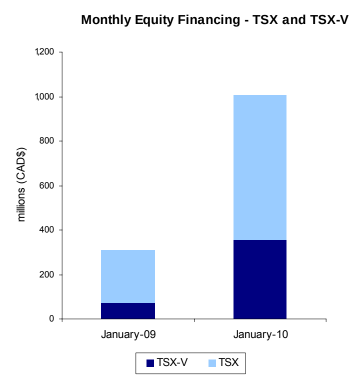
Sources: Bloomberg, LMEX, COMEX, PwC analysis

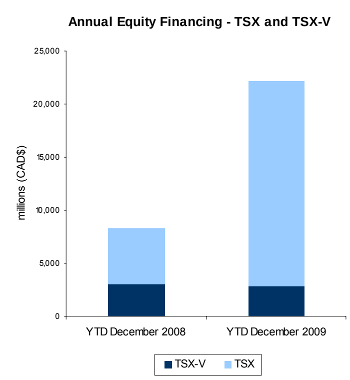
Public Equity Financing in Canada – *The metal count is in…*

Record levels of equity capital were raised in Canada last year via private placements, secondary and supplementary offerings. Through 2010, we expect equity issuances, including IPOs, to be the primary financing methodology for most miners, consistent with historical precedent. In select cases, miners may further capitalize on market exuberance by spinning off projects or business units in separate offerings.

After suffering as one of the most victimized industries during the 2008 credit crisis, the mining industry forged ahead in 2009, raising more equity capital in Canada than any other industry.

- Miners utilized Canadian exchanges to raise $22 billion of equity in 2009, a 168% increase over 2008.
- The average size of financings on the main board rose to $49 million, a 100% increase over the prior year. In contrast, the average size of TSX-V deals decreased 19% as investor appetite for junior to mid tier risks lagged the broader trend.





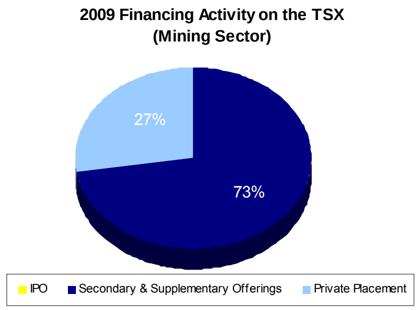
Sources: Capital IQ, PwC analysis

- A closer look at 2009 deal statistics reveals that secondary & supplementary offerings and Private Investments in Public Entities (PIPEs), rather than Initial Public Offerings (IPOs), dominated equity financing activity.
- On the TSX, secondary & supplementary offerings by large producers represented 73% of all deals. Activity was primarily driven by seniors who were eager to repair

Deals

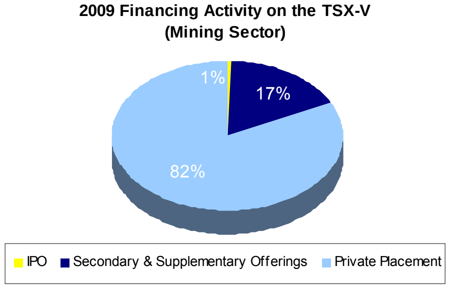
damaged balance sheets, resume shelved projects or build war chests for opportunistic M&A.

- The most prominent secondary sector financing in 2009 was Barrick Gold's $4 billion offering, the largest in Canadian history. The strategic rationale for the deal was noteworthy. Proceeds were earmarked to wind up Barrick's hedge book.



Sources: Capital IQ, PwC analysis

- On the TSX-V, PIPEs represented 82% of deals, a common trend in the non-senior sphere where project risk is high and issuers are eager to circumvent regulatory hurdles. Key highlights of recent PIPE activity include:
  - Most PIPEs were priced on par with market values, as compared to discounts of 20%+ observed at the height of the crisis.
  - The majority of PIPEs incorporated equity sweeteners (such as warrants) or convertible debentures, to increase the potential all-in return.
  - In the latter half of 2009, investment banks were finally willing to underwrite bought deal financings which, for corporates, meant that some of the financing risk associated with equity capital raises was eliminated.



Sources: Capital IQ, PwC analysis

- Sector IPO activity on both exchanges was negligible in 2009, consistent with the broader market trend.
  - On the TSX, there were no corporate IPOs in the mining sector in 2009 (excluding Magma Energy), down from three IPOs raising $42 million in 2008.
  - On the TSX-V, there were 18 IPOs in 2009 raising only $15 million as compared to 47 IPOs raising $111 million in the prior year.
- In a testament to the buoyancy of the Canadian mining capital markets, a plethora of international companies utilized the Canadian exchanges to raise equity in 2009, including firms from China (Asian Resources), Australia (Rugby Mining), the UK (Brandenburg Metals, Cluff Gold), South America (Brazilian Diamonds) and the US (Avanti Mining, Golden Minerals).

Looking forward, we expect three equity financing trends to materialize in 2010:

1. Juniors and mid-tiers will join seniors in raising equity capital.

- In January 2010, the TSX-V posted a 394% increase in monthly equity financings over the same month in the prior year. Albeit coming off a deep trough in 2009, this is still definitely a positive sign.

2. Miners will capitalize on the strong appetite for equities by spinning off projects or business units in separate offerings.

- Two such deals have already been observed in 2010:
  - Barrick Gold recently announced that it intends to sell off 25% of African Barrick Gold via a listing in London. The issuance is expected to raise at least $USD 1 billion;
  - Canadian Ivanhoe Mines recently completed a Hong Kong listing of its Mongolian coal mine project SouthGobi Resources, intended to raise $500 million.

3. A tepid comeback in Mining IPOs and an increase in junior-senior board "graduations".

- In January 2010, five companies completed IPOs on the TSX-V, raising $9.6 million, nearly the sum total of the entire prior year.
- January 2010 also saw three junior miners meet the requirements for graduation to the main board, up from no graduations in January 2009.

Public Debt Financing – *A metal sweep…*

2009 was a record year for sector bond issuances. While this is a positive development, bond issuance is only an option for established senior companies that are able to utilize international exchanges. Going forward, we concur with consensus outlook that sector corporate bond activity will remain strong through 2010.

Public debt capital markets thawed in 2009 after being completely frozen for much of the prior year. Since Canadian debt capital markets are not a centre for mining bond issuances, we have deferred to consolidated global statistics. Notable observations in 2009 included:

- According to Bloomberg data, mining companies sold $33.3 billion in US dollar bonds during the year – a ten year high. Most FX dominated bond markets enjoyed similar rallies.
- During Q1-Q2, only investment grade market leading producers were observed accessing public debt markets, namely Codelco, Anglo Ashanti and Newmont Mining.
- During Q3-Q4, in step with the commodity market rebound, lower quality credits were observed accessing public debt markets including: Western Mining, Teck Resources and First Quantum. In addition, bond issuances to back M&A purchases began, one of the most notable being Vale's $2 billion issuance to partially fund the purchase of Bunge's Brazilian fertilizer assets for $3.8 billion.
- There was a marked preference for the short end of the curve. Maturities between 2010 and 2015 were most common. Issuances maturing beyond ten years were less common.
- The average yield across all observed investment grade debt issuances in 2009 was 3.5% for <5 year terms and 4.9% for 5 to10 year terms, moderately higher than average market yields.
- Foreign investors demonstrated a greater willingness to take up North American sector credits as the majority of issuance activity occurred in Asia, South Africa and London, with no notable sector bond issuances completed in Canada and relatively few in New York.

PwC concurs with the consensus outlook that corporate sector bond activity will be strong through 2010, although we caveat our outlook by reiterating that the bond market is typically only open to large, highly rated credits with projects in stable jurisdictions. It remains nearly impossible for explorers or mid-tier miners to complete a bond issuance.

Alternative Financing – *Freestyle deal moguls…*

Traditionally mining companies accessed capital via alternate financing structures, such as strategic partnerships and royalty agreements, especially for project financing needs, a fact that was often forgotten during the 2004 to 2008 credit boom. Today's mining industry has gone "back to basics" with all types of miners, especially junior explorers, utilizing alternative financing structures as a prime source of capital.

Royalty Agreements

- Royalty agreements permit miners to sell a percentage of future revenues in exchange for current financing and provide investors an opportunity to invest in commodities without the associated operational risks.
- Net smelter royalties are typically 2% of proceeds net of smelting and refining charges, but can range from 0.5 to 5%. Alternatively, net profits interest of 10 to15% can be paid after all expenses are deducted.
- Plentiful access to capital and debt pools during the "commodity boom" meant that such agreements, which had traditionally been key methods of financing for mid-tier developers and seniors, became a less popular option. From Q4 08 to Q1 2010, many miners resumed use of such agreements.

- Royalty agreements are currently well regarded by capital markets, as evidenced by a recent over-subscribed $370 million bought deal for the Canadian royalty company Franco-Nevada Corporation.

- PwC expects that royalty agreements will continue to be a key source of financing, consistent with the pre-crisis historical trend.

“Streaming” Companies or the “Silver Wheaton” Model

- Streaming companies enter into long-term agreements where in exchange for an up-front payment, they can purchase all or a portion of the commodity production from mines at a fixed price. The streaming company does not own, operate or have any other interest in the mine.
- Often, a streaming agreement will permit a mine operator that produces a by-product to immediately monetize the value of non-core production and increase a project’s return by receiving upfront cash while retaining 100% ownership of the core commodity. Unlike equity or debt financing, there is no dilution for shareholders, financing cost or punitive debt repayments. Mining companies may, however, be subject to penalties for missing production targets.
- Companies like Silver Wheaton have made such structures a popular option for project financing. Most recently, Silver Wheaton completed the acquisition of all of the silver and gold by-product from Augusta’s Rosemont copper project. Terms of the deal included:
  - Silver Wheaton will pay Augusta upfront cash payments totaling $230 million to acquire an amount equal to 100% of all payable silver and gold produced from Rosemont, for the lesser of $3.90 per ounce of silver and $450 per ounce of gold (both subject to an inflationary adjustment) or the prevailing market price per ounce of silver and gold delivered.
- PwC expects that the popularity of this business model will encourage market entrants and give more miners the option to utilize streaming agreements for project financing.

Strategic Partnerships and Private Placements

- Alliances, whereby a senior gains access to a strategic resource via investment (commonly structured as “offtake” or “farm in” agreements”), and private placements, in which an investor receives equity, quasi-equity or debt, in exchange for funding exploration or development, continue to be common.
- Such arrangements are unregulated and so frequent that it remains difficult to quantify an exact aggregate value or volume of transactions. Most industry insiders report that both strategic partnerships and private placement volumes are high, with most private investors currently seeking out average positions of $800,000, up from positions of $250,000 or less in the prior year.
- PwC expects that miners of all sizes will continue to utilize strategic partnerships and private placements to secure capital, access strategic resources and reduce project risk. Terms and conditions are expected vary widely on a case-by-case basis.

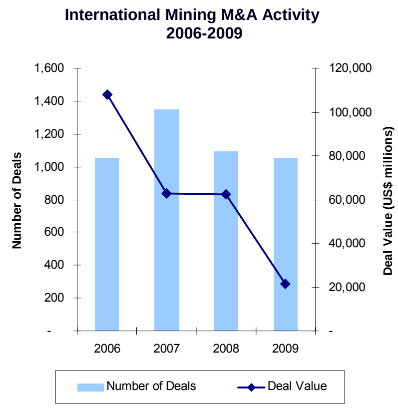
Mergers and Acquisitions[2] – *On your mark, get set…*

The global mining M&A market was unexceptional in 2009, with deal volumes and aggregate value still well below peak levels. However, commodity, equity and debt market strength during 2009 have created a “perfect storm” for a blockbuster year in 2010.

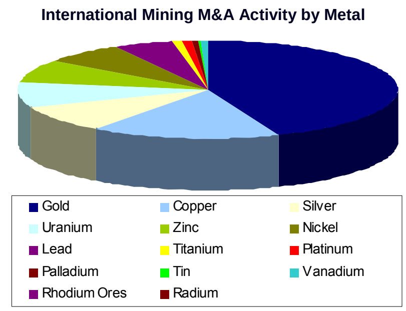
Key trends observed in International M&A Mining activity (in selected sub-sectors) for 2009 included:

- Deal volumes and aggregate values declined.
  - Deal and dollar volumes were down 21% and 80% respectively, from recent peaks.
  - The steep decline in aggregate value is due to a third consecutive annual decline in the number of “mega deals”. Gone were the days of deals such as Freeport-McMoRan’s $25 billion acquisition of Phelps Dodge and Xstrata’s $20 billion acquisition of Falconbridge, both in 2006. Indeed, since 2006, the number of >$1 billion+ deals has dropped by 69% and average deal value has plunged by 80% (to $38 million).

Deals

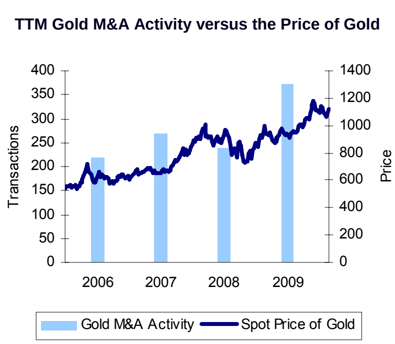


Sources: Capital IQ, PwC analysis



Sources: Capital IQ, PwC analysis

- Public market deal premiums were relatively consistent with pre-crisis levels.
  - Average day prior and week prior deal premiums on publicly traded targets were 29% and 36% in 2009, slightly higher than pre-crisis premiums, but down from the 38% and 46% day and week prior premiums observed in the prior year. It is important to highlight that average 2008 premiums are misleading. Public market valuations were highly depressed in the latter half of 2008 and did not necessarily reflect long term intrinsic value.
- In the universe of base and precious metal deals, the gold sub-sector dominated activity.
  - Companies with a major interest in gold represented 44% of all M&A targets, followed by copper (16%), silver (9%) and uranium (8%).
  - As demonstrated in the accompanying table, an uptick in gold M&A activity is highly correlated to the price of gold. When near-term price strengthening is anticipated, senior producers often pursue strategic mergers and tuck-under acquisitions to secure future production.



- Outbound activity from Asia continued at a rapid clip.
  - Consistent with the precedent set post 2003, outbound deals from Asia accounted for 25% of mining sector deal volumes and 23% of aggregate deal value. China MinMetals, the Chinese state-controlled metals and mineral trading company, led the pack, closing $1.4 billion in mining-related deals.
  - Analysts remain divided on Chinese motives for deal activity. Some argue that Chinese purchases are opportunistic acquisitions ahead of expected future demand, while others postulate that activity is largely driven by a need to diversify away from the US dollar. At issue is the latter motivation which suggests that fundamentals are not driving activity – a dangerous precedent.
- Canadian miners continue to be key global players.
  - 34% of all takeover targets in 2009 were Canadian-owned mining companies or projects, although, at an average deal size of only $17 million, deals represented only 15% of dollar volumes.
  - On the buy side, 38% of all mining deals, by volume, had a Canadian owned acquirer. In fact, the aggregate value of Canadian led deals was close to $5 billion.
    - o The most notable deal was Eldorado Gold's acquisition of Sino Gold Mining. The $1.84 billion transaction doubled Eldorado's gold production in China.

Going forward, PwC expects three M&A trends to materialize in 2009:

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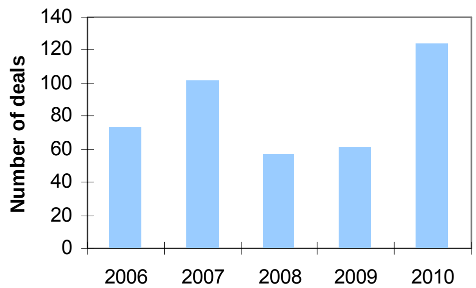
1. A steep uptick in deal volumes.

- Producers, flush with cash from record equity and debt capital raises, are likely to shift their focus from cost cutting to maximizing shareholder returns and boosting production. In an environment characterized by expectations of rising commodities prices, inorganic growth is often best suited to achieve both the former and latter objectives.
- Year-to-date activity is highly encouraging—transaction volume is higher than in each of the four preceding years, outpacing even 2007 by a healthy margin. If this pace continues, 2010 could be a record-setting year.

International Mining M&A Year-to-date 2010 versus Prior Comparable Periods



Sources: Capital IQ, PwC analysis

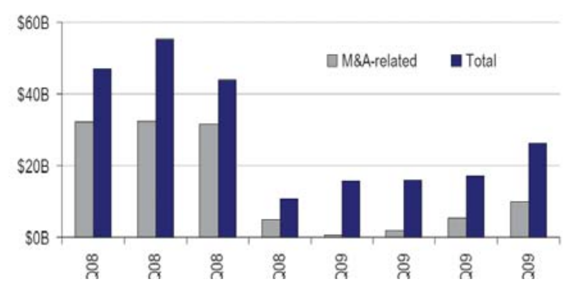
2. A moderate shift in Chinese focus away from outright acquisitions of Canadian and Australian projects

- We expect that, after three years of scouring Canada and Australia for mining projects and companies, China's deal making focus will broaden. Indeed, rising competitive deal tension in these politically stable regions may incent risk-seeking Chinese buyers to evaluate targets in less stable jurisdictions. Recent reports suggest that China is aggressively canvassing Indonesia and Columbia for opportunistic buys. In addition, China has been active in the politically unstable jurisdictions of East Africa and the Democratic Republic of Congo, areas which may also prove to be hotbeds for further outbound Chinese deals.
- Growing economic nationalism in both Canada and Australia may deter Chinese buyers from pursuing major takeovers. In their place will likely be minority /JV interest deals and offtake agreements. Such structures will permit Chinese acquirers to secure the supply of strategic commodities while avoiding bidding wars and regulatory roadblocks.

3. A tepid resurgence of >$500 million deal.

- A plethora of cash-rich seniors eager to secure production ahead of price strengthening combined with a resurgence in leveraged lending activity may result in a mild revival of the "mega-merger."
- In Q4 09, broader credit market improvements finally trickled down to the LBO loan market – a key deal driver of the $500 million+ M&A deal segment: New M&A loan volumes were up over $1 billion in October 2009 and have since been steadily increasing. While encouraging, M&A related lending still remains well below recent peaks.

North American LBO Loan Volumes*



Source: S&P LCD

** Since Canadian leveraged lending market is nascent, we refer to consolidated North American data for leveraged statistics.*

- While there has been no notable "mega deal" activity year to date, the global mining patch is abuzz with rumours. The Australian Financial review, for example, recently reported that Rio Tinto could be interested in buying Ivanhoe Mines (a potential $7 billion+ deal) and mining industry heavyweights BHP Billiton, Barrick and Newmont are all reportedly considering their strategic options.

The PwC Mining group is looking forward to what is shaping up to be an interesting year in Mining Capital Markets and looks forward to continuing our dialogue with you through 2010.

Deals

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All dollar amounts are expressed in US dollars, unless otherwise indicated.

1. *Our analysis is inclusive to diversified metals and mining, gold and precious metal ores. It excludes select sub-sectors sometimes classified as mining such as steel, aluminum, coal and potash.*
2. *PwC tracked international deal activity in diversified metals and mining, gold and precious metal ores –our analysis excludes certain sub-sectors often classified as Mining including: coal, steel, aluminum and potash. Given the importance of global sector M&A dynamics for the Canadian mining sector, our deal analysis draws on international deal experience, rather than solely domestic.*
3. *Kennedy; "Business Advisory Services Marketplace 2009-2011"; © BNA Subsidiaries, LLC. Reproduced under license.*
4. *Acquisitions Monthly Awards 2010.*

Sources: Bloomberg, Capital IQ, TMX Group, The TMX MiG Report, Gamah International, The Financial Post, Toronto Dominion Bank, Scotiabank, TD Securities, National Bank, Moodys, The Gartman Letter, Financial Week, Barrons, The Globe and Mail, National Post, mergermarket, Telephony, PR newswire, Canada Stockwatch, Wall Street Journal, New York Times, FT Alphaville, The Daily Telegraph, The Associated Press, Marketwatch, The Washington Post, BMO Capital Markets, CIBC World Markets - Economics, The Economist, International Trade Suite, Seeking Alpha, TD Newcrest, J), Zero Hedge, Standard and Poors, Reuters Loan Connector, The Economist, Business Standard, RBC Capital Markets, International Monetary Fund, Conference Board of Canada, Torys LLP, William Blair & Company LLC, Financial Times, S&P LCD.