

PwC Capital Markets Flash

Volume II • Issue 25 • Special Mining Industry Briefing

October 1, 2009

Welcome back!

After a brief summer hiatus, PwC is resuming its capital markets coverage and commentary. We have a fresh new look and have also moved to bi-weekly Thursday evening distribution.

Our season opener is a special Mining Industry Briefing. As set out in our In Focus section, commodity market strength, driven largely by speculative behaviours, has provoked a flurry of mining capital markets activity in the latter half of 2009, as many mid-tier and senior miners rush to raise capital and transact while markets permit. Despite the capital markets' recovery, many juniors still face significant challenges.

We welcome your ongoing feedback and look forward to continuing our capital markets dialogue with you.

	Oct 1, 2009	Crisis Extreme	Sept 1, 2008	Pre-Crisis Extreme ¹	Week-over-week
CDN\$/US\$	\$0.928	\$0.771	\$0.936	\$1.091	▲
S&P 500	1,030	677	1,278	1,565	▼
S&P/TSX	11,071	7,567	13,300	15,073	▼
LIBOR ²	0.28%	4.82%	2.81%	1.11%	—
TED Spread ³	0.19%	4.64%	1.10%	0.14%	▲
S&P/LSTA ⁴	1,383	895	1,293	1,335	▼
CBOE VIX ⁵	28	81	21	10	▲
Baltic Dry Index ⁶	3,452	663	6,691	11,793	▲
WTI Crude Oil ⁷	\$70.21	\$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

Raising capital

- Expect publicly listed miners to continue to access equity capital via PIPEs and secondary offerings. Investor appetite for IPOs will likely remain tepid for most, with probable exceptions for gold and silver producers.
- We anticipate a continued lender and bondholder bias to fund well-capitalized senior and strong middle-tier miners with projects online. Most junior and middle-tier explorers will likely need to rely on alternative structures, such as strategic partnerships.

Mergers & acquisitions

- Expect M&A activity, for the remainder of 2009, to be characterized by: a high level of activity in the gold sector, a divergence in valuation amongst base and precious metals producers and increasing partnership and minority interest deals.

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Notable economic news

• Monetary policy

- The Fed maintains its overnight target rate at 25 bps in September and also notes that it will begin slowing its support of credit markets, although government purchases of mortgage-backed securities and agency debt will continue into 2010.
- The Bank of Canada maintains its overnight rate at its effective lower bound of 25 bps in September. The Bank sees a stronger than expected return to growth in the second half of 2009.
- Despite low rates, the IMF cautions that well into 2010, businesses and consumers will have a harder time getting low cost credit: *"It appears that supply may fall short of even anemic private sector demand. As a result, pressure on funding rates could increase and the flow of credit to support recovery could be curtailed."*

• Inflation/deflation

- New data reveals that headline Canadian CPI continued to fall in August, declining by 0.8% year-over-year. However, core inflation remained well-anchored, increasing at 1.6% year-over-year despite significant slack in the Canadian economy. Because core inflation is well under the Bank of Canada's target of 2%, the Central Bank has significant capacity to leave the overnight target rate at its lower bound of 25 bps beyond the second quarter of 2010.
- Inflation in the US shows no signs of breaking out despite a historic expansion in the Fed's balance sheet. Headline CPI in August came in at -1.5% while core inflation registered at just 1.4%.
- Japan's CPI continues to drop at a fast clip while Germany, Europe's biggest economy, posts its fourth consecutive month of sliding prices.
- Despite fears that government injections of cheap money into the economy may result in inflated asset prices, noted economist David Rosenberg comments: *"We are certainly in a deflationary state."*

• Exchange rates

- The loonie's slow march to parity with the US dollar is tripped up by lower crude oil and other commodity

prices, as well as some talking down by Mark Carney. The loonie fell from a year-to-date high of just under 94 cents to less than 92 cents before a rebound in oil prices propelled it back to almost 94 cents.

• Economic activity

- New data reveals that Canadian monthly real GDP growth was unchanged in July following a 0.1% increase in June. Growth in wholesale trade and the reversal of nine months of consecutive declines in manufacturing offset declines in mining, construction and retail trade.
- The Conference Board of Canada's Index of Consumer Confidence continues its upward trend. In September, the monthly index rose 2.5 points to 90.9, a seventh consecutive uptick and the longest upward streak since 2002. In contrast, according to a survey by the Royal Bank of Canada, executives in finance and business are not optimistic about the economy. Only 6% of respondents foresee a *"sharp economic rebound"* over the next six months. A quarter of respondents expect no *"meaningful recovery for at least one year, followed by negligible growth at best,"* and 10% anticipate *"another two years of economic weakness."*
- South of the border, second quarter GDP is revised up from -1% to -0.7% at an annualized rate, however bullish expectations for the second half of 2009 are challenged by a fall in US consumer confidence, largely attributable to near 10% unemployment.
- New data reveals that US industrial production, which includes output by the nation's factories, mines and utilities, jumped 0.8% in August after surging an upwardly revised 1% in July. The US government's "cash for clunkers" program helped drive manufacturing output, but factory production unrelated to autos increased as well. The optimism engendered by growth in industrial production may be dashed by an unexpected decline in the US ISM Manufacturing Index from 52.9 in August to 52.6 in September. Economists were looking for the Index to increase to 54. A reading above 50 signals an expansion.
- New data reveals that the nascent recovery in the US housing market stumbled in August as existing

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home sales fell 2.7% month-over-month and new home sales came in well below expectations. Although US home prices in July registered the largest monthly gain in 4 years, they remain down 13.3% and 30% year-over-year and from their peak in July 2006, respectively.

Notable M&A

- Dell agrees to acquire Perot Systems for approximately \$3.9 billion, a 67.5% percent premium over its pre-announcement closing price. Dell had earlier announced its intention to buy a company with a strong focus on serving health care and federal government customers to expand its technology services business.
- Oil and gas service provider Calfrac Well Services agrees to acquire privately-held Century Oilfield Services for \$90 million in stock and cash. Under the proposed agreement, Calfrac will pay 85% of the total price with shares priced at a 6% discount to the closing price on the day of the announcement. The remaining 15% of the purchase price will be paid in cash. The company will also assume debt and other liabilities of approximately \$30 million. Calfrac president and CEO stated: *"The acquisition of Century is a highly attractive transaction for each of Calfrac and Century with strategic benefits that we expect will create value for all Calfrac shareholders."*
- Consumer products giant Unilever announces plans to acquire businesses from Sara Lee, including the Sanex and Duschdas brands, for €1.28 billion. The target businesses are reported to have generated annual sales of €750 million and operating earnings of €128 million. Unilever reported that: *"The acquisition will strengthen Unilever's leadership positions over all in Western Europe... In addition, there is significant potential to build these brands in developing and emerging markets..."* When completed, the transaction will be Unilever's largest purchase since its \$2.6 billion acquisition of Ben & Jerry's in 2000.
- Macquarie Group, Australia's largest investment bank, agrees to acquire Fox-Pitt Kelton Cochran Caronia Waller LLC, a leading specialist investment bank focused on financial institutions, for \$130 million. Tim Bishop, president & CEO of Macquarie Capital (USA) Inc., said: *"Combining the FPK team with ours is the ideal way to expand our financial institutions presence beyond the Asia-Pacific into North America and Europe."*

It is consistent with our focus on key industry sectors and adds financial institutions as a core specialty for Macquarie."

- Sinochem, the Chinese state-owned chemicals firm, bids \$2.5 billion for Nufarm, an Australian farm chemicals manufacturer and distributor. The offer price represented a 17% premium to Nufarm's pre-announcement trading price, leading shares to rally 10%. If the deal is successful, it will be the largest takeover deal by a Chinese entity of an Australian company in history. Numerous analysts are watching the transaction as a "test" of Australia's Foreign Investment Review Board.

Notable capital raises

- DundeeWealth, rated BBB/BBB-, completes an offering of \$200 million 5.14% notes due September 24, 2014. The pricing represents a 250 bps spread over comparable Canadian government bonds.
- Casino operator Wynn Macau raises \$1.6 billion from its Hong Kong IPO after pricing the deal at the top end of its indicative price range. According to the Wall Street Journal, the institutional book closed ahead of schedule due to "exceptionally strong demand" and was over 20 times covered.
- Gannett Company, the US's largest newspaper publisher, sells \$500 million in new bonds to pay off close to \$3 billion in debt coming due in the next two and a half years. Half of the notes are due in 2014 paying 8.75% and the other half are due in 2017 paying 9.375%. Earlier this year, Gannett offered to exchange bonds due in 2011 and 2012 with rates of 5.75% and 6.375%, respectively for bonds paying 10% due in 2015 and 2016. At that time, bondholders were only willing to exchange \$260 million out of the nearly \$1 billion offered.
- BNP Paribas announces it will raise equity of €4.3 billion to repay the €5.1 billion it borrowed from the state. As part of the deal, the government may also receive a payout of €226 million on the nonvoting preferred shares it purchased. *"State intervention to provide equity and liquidity, key in the midst of the financial crisis, has fully achieved its objectives,"* BNP said Tuesday in a statement. *"Given the changing environment and the strong performance of BNP Paribas, this support is no longer required."*

In Focus – Special Edition

Mining Industry Briefing – *Raging bullion*

What a difference a year makes...or perhaps not

In September 2008, commodity markets, in step with the larger global economy, began a half year nosedive, with some metals dropping by as much as 60%. However, mostly all commodities have been strongly bid up through the spring and summer of 2009 due to *expectations* of an industrial production recovery. Gold, as expected, has appreciated past the symbolic \$1,000 mark due to *expectations* of global inflation and US dollar devaluation.

Commodity market strength, driven largely by speculative behaviours, has provoked a flurry of mining capital markets activity in the latter half of 2009, as many mid-tier and senior miners rush to raise capital and transact while markets permit.

A closer look at commodity performance year-to-date – *Digging deeper*

- In certain cases, metal prices, namely aluminum, nickel and zinc, are being bid up absent inventory depletion, a worrisome trend suggestive that the market rebound is based upon speculation, rather than on fundamentals.
- In the case of copper, year-to-date prices have increased 100% from \$1.39 to \$2.80 (US\$/lb) with flat LME Copper Inventories. Most attribute copper strength to a high volume of buying activity from China, where the key industrial input is being stockpiled in domestic inventories rather than being utilized for production.
- Countercyclical metals, namely gold and silver, continue to strengthen, as expected, due to inflationary and US dollar devaluation fears.

Trends in mining finance – *Like it “ore” not*

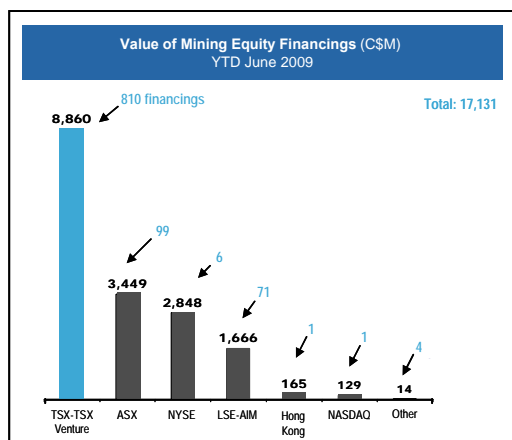
Equity financing on public markets – *Gold rush?*

The general theme in equity financing is that for listed producers, there is a plentiful supply of equity capital available via PIPEs and secondary offerings, especially for gold producers utilizing Canadian exchanges. New

listings, however, remain an unlikely option for most, and almost all junior—mid-tier exploration companies are effectively barred from accessing equity on public markets.

- Peak commodity prices, strong investor demand for public equity and easy credit in the period 2004 to mid-2008 permitted mining companies of all stages to raise equity capital on public markets using a variety of methods, including corporate IPOs, secondary offerings (of shares or rights), private investment in public entities (PIPEs) and supplementary financings (of preferred shares or convertible debentures).
 - Between 2004 and 2008, 10,176 deals raised a total of \$136.9 billion in equity capital for listed mining companies, with the majority of activity occurring in the world’s three principal centres for mining capital markets—Toronto, London and Australia.
- Although the economic crisis resulted in a dearth of equity financings in Q4 08, in 2009, the ability for public companies to raise equity capital appears to be “back from the brink”, especially in Canada:
 - In the first six months of 2009, listed companies raised an aggregate \$17 billion in equity capital, inline with 2008 on an annualized basis and 30% higher than 2008 on an annualized basis when Vale’s blockbuster 2008 \$11 billion secondary offering on the Brazilian exchange is excluded.
 - Interestingly, in the first six months of 2009, the TSX/TSX-V reported an astounding \$8.8 billion in equity financings—an amount that is already higher than the total \$8.2 billion in mining equity capital raised in FY 08, and is more than double the amount raised by each of the competing exchanges year-to-date.

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Source: Gamah International, Compiled by TMX Group

- Also encouraging is the fact that, unlike Q4 08 and Q1 09, investment banks are willing to underwrite bought deal financings, which for corporates, means that some of the financing risk associated with equity capital raises has been eliminated.
- Interestingly, despite the pickup in equity capital raising activity, the IPO market remains dormant—of the 980 equity capital raises reported by major mining centres in the first half of 2009, only 48 were IPOs, of which 44 were completed in Toronto (inclusive of 21 capital pools).
 - Testament to the buoyancy of the Canadian mining capital markets, new financings in Toronto were not exclusive to Canadian companies. A plethora of international companies utilized the Canadian exchanges including firms from China (Asian Resources), Australia (Rugby Mining), UK (Brandenburg Metals, Cluff Gold), South America (Brazilian Diamonds) and the US (Avanti Mining, Golden Minerals).
- The majority of equity is being raised in 2009 via PIPEs and secondary offerings. Why? Because time is of the essence, with many viewing the growing commodity market strength as a “window of opportunity” to raise equity. PIPEs and secondary offerings, unlike time consuming IPO processes, are best suited for such expedient capital needs. Notable equity capital raises by listed issuers in 2009 include:
 - In July 2009, Rio Tinto completed the second largest deal in history via a \$15.2 billion rights issue. The company offered shareholders 21 new Rio Tinto PLC shares for 40 existing shares at a price of 1,400 pence per share, which was a 48.5% discount to the closing price on June 4, 2009. In addition, Rio Tinto offered 21 new Rio Tinto Limited shares for every 40 existing shares at \$28.29 per share, which was an approximate 57.7% discount to the closing price on June 4, 2009. Proceeds were used to meet repayments on the \$40 billion facility that Rio Tinto used to acquire Alcan in 2007. In addition, access to funds permitted Rio Tinto to walk away from a \$19.5 billion “bailout” from Chinalco, a controversial deal that many Europeans disputed on the basis that it compromised national interests (Rio Tinto was required to pay a \$195 million break free for abandoning the deal).
 - In September 2009, Barrick Gold announced a planned \$4 billion secondary offering, the largest in Canadian history. The proceeds are earmarked to wind up Barrick’s hedge book, which locked the company into receiving a fixed price for some of its gold production at less than the current \$1,000 plus range, a significant business risk in light of bullish gold forecasts. The offering will increase the company’s share float by 10.6%.
- Other pertinent trends observed in public equity capital markets include:
 - Most deal activity is driven by already listed senior gold, silver, copper and uranium producers. Certain minor metals, such as molybdenum, remain distressed.
 - Equity financings for listed issuers are being priced at discounts to public market values in the range of 8%+, down from 20%+ levels seen at the height of the economic crisis.
 - Issuers remain willing to provide sweeteners such as warrants or convertible securities to mitigate equity risk.
 - Select large equity capital raises have been highly dilutive for existing shareholders; however, it should be noted that such deals are the exception rather than the rule. Across all exchanges, reported average deal size is down by 30%.
 - Flow through share issuances, a unique Canadian public equity funding option that permits investors to claim a deduction up to the amount of the share

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subscription price against any income in respect of resources expenses, remain dormant, with some exceptions including Noront Resources' recent \$20 million private placement of flow through shares.

- While the market for raising equity capital is currently experiencing a recovery, we expect that the IPO market, with the notable exception of the gold sub-sector, will remain quiet for the remainder of 2009, or until investors are convinced that an L or W-shaped recession has been avoided. PwC also anticipates that as pent-up demands for equity capital are met, the pace of PIPE and secondary activity will stabilize, with many proceeding cautiously with FY 10 project and expansion plans. Successful issuers will likely be limited to already-listed senior and strong middle-tier producers with:
 - An interest in gold, silver, uranium and/or copper;
 - Cash-flow positive projects online;
 - Operations in stable geographies;
 - Proven management teams; and/or
 - Strong balance sheets.

Debt financing – *In “gold” we trust*

The general theme of the credit markets in the second half of 2009 is that both lenders and investors are “back in business”, but cautious. In the mining industry, there is a clear bias by lenders to transact with high credit qualities, specifically senior producers in gold and other countercyclical metals, with a few notable exceptions for “blockbuster” names or circumstances. Public bondholders are expressing a renewed appetite for riskier credits, albeit with corresponding risk premiums. For most junior and middle-tier explorers and producers, however, it remains challenging to access sufficient debt capital on reasonably commercial terms.

Corporate and project loans

- When compared to 2004-2008, the senior debt lender landscape is dramatically altered. Hedge, mezzanine and other alternate lenders are largely inactive, with only commercial and corporate banks open for discussion.
- Following a complete standstill in Q4 08, and a quiet Q1 09, there has been a steady uptick in loan issuance across all geographies. An analysis of recently placed

loans in North America, South America, Europe and Asia reveals that:

- The majority of facilities are being extended to investment-grade companies. Very few facilities were provided to companies rated less than BBB+.
- Most lenders are looking to hold smaller positions in the range of \$30 million or less, consequently resulting in the need for more syndicate partners.
- Base rates have dropped to historic lows, even when compared with pre-crisis lows, with LIBOR approximating zero. However, this has not necessarily translated into a low cost of credit for miners. While rates have dropped from the crisis highs of 15%+, most new facilities are priced between 5-7%, with a few outliers as high as 15% and as low as 3%.
- Terms are shorter, with most lenders typically not going beyond a three-year term. Some non-bank lenders will go up to five to seven-year terms. A 10-year term is difficult to obtain.
- “Covenant light” loans are no longer available, with some lenders now referring to requirements as “covenant heavy.” Typical covenants included fixed charge coverage, debt to EBITDA and minimum tangible net worth, and vary widely depending on the type of lender, capital and borrower.
- The majority of facilities were secured, uncommitted facilities for general corporate use. Very few project finance facilities, bridge loans or M&A term loans were observed.
- There were a number of notable facilities that “bucked the general trends”, a signal that lenders are open to negotiations. One examples is:
 - In February 2009, Newmont Mining successfully secured a \$1 billion 364 day bridge loan to help pay for its purchase of an Australian gold mine (shortly thereafter Newmont completed a successful follow-on equity offering to pay back the facility).
- PwC expects that for the remainder of 2009, lenders will continue to question the sustainability of the credit market recovery by remaining active, but cautious, at least until there is more pervasive evidence of macroeconomic strength.

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Public debt

Public debt capital markets resumed activity in 2009 after a complete standstill in Q4 08. Notable observations in public debt issuance in the mining sector included:

- During Q1-Q2, only established market leading producers were observed accessing public debt markets, namely Codelco, Anglo Ashanti and Newmont Mining.
- During Q3, an uptick in medium-size producer and lower credit quality issuance was observed, including Western Mining, Teck Resources and First Quantum.
- There was a marked preference for the short end of the curve—maturities between 2010-2014 were most common. Issuances maturing beyond five years were rare.
- The average coupon across all debt issuances in 2009 was 6.7% with a broad range of 2-17%, reflective of the degree of bias for short-term highly rated credits.
- It is still virtually impossible for explorers or mid-tier miners to issue public debt. No notable issuances were noted.

A notable transaction in 2009 was:

- In May 2009, Teck Resources announced a \$4.2 billion high-yield bond issuance, with proceeds earmarked to erase a \$5.8 billion bridge loan. Although the issuance carried rates of 9.75% to 10.75% in five, seven, and ten-year tranches, the fact that a miner with a BB+ rating was able to access billions was considered by many as a signal that the public credit markets were officially opened to the mining industry once again.

Alternative financing structures – *Back to the salt mines*

Small to mid-size mining companies traditionally accessed capital via alternate financing structures, such as strategic partnerships and royalty agreements, a fact that was often forgotten during the 2004-2008 credit boom. In today's more conservative environment, we are witnessing a "back to basics" approach for the non-senior universe of miners, especially explorers, characterized by re-employment of alternative financing structures. And, new to this cycle, some larger entities, seeking to reduce upfront financing costs, share exploration costs and

mitigate financing risks, are seeking to access capital using non-traditional approaches.

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 0.5-5%. Alternatively, net profits interest of 10-15% can be paid after all expenses are deducted.
- Plentiful access to capital and debt pools during the "commodity boom" meant that such agreements, traditionally key methods of financing for middle-tier developers and seniors, became a less popular option. In Q4 08-Q1 09, 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 to see a continued return to "business as usual" with increased utilization of these structures.

"Streaming" companies or the "Silver Wheaton" model

- Streaming companies are set up to 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 to make in the future.
- Such structures, previously utilized as a last resort, are becoming increasingly popular for project financing—the

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most notable example being a September 2009 arrangement between Silver Wheaton and Barrick in which Silver Wheaton provided \$625 million in financing for one of Barrick's South American gold mines in exchange for the right to buy 25% of the silver production from the gold mine (silver is the secondary metal) at \$3.90 an ounce or less (as compared to the current market price of approximately \$16.51). PwC expects that the recent popularity of this business model will encourage more lenders and miners to consider streaming agreements a viable financing option.

Strategic partnerships and private placements

- Juniors still have few options for accessing capital via debt and equity markets on reasonable commercial terms. As such, alliances, whereby a senior gains access to a strategic resource via investment, and private placements, in which an investor receives equity 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, however, the size of transactions are notably smaller, with most private investors seeking out positions of \$250,000 or less.
- PwC expects that as commodity markets continue to strengthen, small to medium miners will have moderate to strong success accessing capital from larger strategic and private investors, with terms and conditions varying widely on a case-by-case basis.

M&A activity – *What's "mine" is yours*

- Dealogic reports that year-to-date (to August 31, 2009), 436 mining M&A transactions with an aggregate value of approximately \$18 billion have been completed, largely in the second and third quarters.
- Deal volumes are approximately 26% lower than the same period in the prior year, while average deal values have decreased approximately 68%.
 - The decrease in deal volumes and aggregate value is largely attributable to a drop off in "mega deals" worth \$1 billion or greater. Only four transactions valued over \$1 billion have been observed thus far

in 2009, as compared to eight transactions in the same period in the prior year. Similarly, only 15 deals valued greater than \$250 million were observed in the first eight months of 2009, a 60% drop over the same period in the prior year. In contrast, deal volume for transactions valued less than \$50 million were only down 20% and, at 299 deals, represented 68% of all transactions.

- Interestingly, smaller deal values are partially attributable to a pick up in minority interest acquisitions and joint ventures, as opposed to outright acquisitions of controls, consistent with miners' new bias to share and mitigate risk.
- Although a dramatic drop off in M&A activity from the 2007 peak, it is important to highlight that the 2004-2008 period was anomalous. In the entire decade prior, mining deal activity hovered around \$20 billion per annum, in line with current annualized aggregate value of \$27 billion.

Current trends in M&A activity

There are three notable trends in mining M&A activity thus far in 2009.

1. *Chinese companies are acquiring minority interests in North American and Australian mining operations via private placement.*

Minority interest acquisitions permit Chinese acquirers to secure access to strategic commodities at compelling valuations while avoiding Western regulatory roadblocks to foreign ownership. A recent deal example is:

- China Investment Corporation (CIC) acquired a 17.5% stake in Teck Resources via private placement for cash consideration of \$1.5 billion, a 6.9% discount to Teck's closing share price on the last trading day prior to the announcement.

2. *Consolidation of mining projects and operations via "mergers of equals" and joint ventures.*

Stagnant industrial production is spurring a number of senior diversified and base metal producers to improve profitability by pursuing transactions that create operational synergies, assist in deleveraging and/or achieving economies of scale. A recent deal example is:

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- Rio Tinto and BHP Billiton established a production joint venture covering the entirety of both companies iron ore assets. According to analysts, the net present value of synergies among the two companies is estimated to be in excess of \$10 billion. In addition to synergies, BHP will pay Rio Tinto \$ 5.8 billion in equalization payments, which will reduce Rio Tinto's \$38.7 billion debt load.

3. Bullion producers are pursuing mergers and tuck-under acquisitions at premium valuations to boost production.

In light of recent strength in the bullion market and in anticipation of further price strengthening, many companies are pursuing strategic mergers and tuck-under acquisitions to “buy” production. In fact, the market is so competitive that many suitors are first taking minority equity positions in a company so as to have an advantage over others suitors in the event an M&A process materializes. According to one Canaccord Adams analyst, *“Having a share position accumulated at lower prices than a competing takeover bid allows for the company to top the bid while still maintaining an overall, competitive average cost.”* There are numerous transactions exhibiting this trend, one recent notable deal being:

- In August 2009, Eldorado Gold acquired Sino Gold Mining for \$1.84 billion in an all-share deal that will double Eldorado's gold production in China. Sino Gold shareholders will receive 0.55 Eldorado shares for each share held, an offer that translates into approximately \$7.24 per Sino Gold share, a premium of 21.3% to Sino's trading price pre-announcement. Analysts were not surprised by the proposed deal, as Eldorado had already acquired Gold Fields' 19.8 % stake in Sino Gold earlier this year, a move that fueled speculation of a pending takeover.

Expected M&A trends for the remainder of 2009

PwC expects that in addition to the trends noted above, M&A activity for the remainder of 2009 will be characterized by:

- *A high level of activity in the gold sector:* Forecasts of a falling US dollar and fears of inflation may incent buyers, especially in China, to increase their exposure to gold, a traditional hedge against both inflation and a falling greenback.

- *Divergence in valuations:* Linger concerns over industrial production and growing inventories may result in slower growth amongst base metals as compared to precious metals, the major M&A impact being premium valuations for the firms operating in the latter segment, and discounted valuations for those in the former segment.
- *Partnerships & minority interests:* Growing economic nationalism and protectionist policies may result in an increased incidence of partnerships as opposed to outright acquisitions in the case of cross-border deals.

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