Down, but not out

Global Mining Deals
2012 Review
2013 Outlook

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Introduction

M&A in 2012: Not just a one-hit wonder

It was far from the most active year for mining mergers and acquisitions (M&A), but 2012 had its share of exciting transactions and trends.

The obvious deal-of-the-year was the announced $54 billion blockbuster merger between Switzerland-based Glencore International plc and United Kingdom-based Xstrata plc to form one of the world’s largest diversified miners. There was some controversy around the deal in terms of offer price and retention bonuses, but as it works its way through final regulatory approvals, “Glenstrata” is expected to go down in history as one of the largest mining marriages in history.

There was some concern in the market when the deal was announced in February 2012 that it might have cursed commodity prices, which took a dive in the first half of the year. However, as 2012 wound down, prices of gold, silver, copper, zinc and other metals rebounded.

While “Glenstrata” dominated news headlines, 2012 was not a one-hit wonder for M&A activity. Copper was the most sought-after metal when measured by deal value in 2012, and evident in First Quantum Minerals Ltd.’s $6.7 billion hostile bid for Inmet Mining Corp. That said, copper couldn’t outpace gold in terms M&A deal volume. While 2012 didn’t yield any blockbuster gold deals, the mining community did witness plenty of interest in the gold space. The two largest gold deals in 2012 included Pan American Silver Corp.’s $1.4 billion purchase of Minefinders Corp. and B2Gold Corp.’s $1.2 billion purchase of CGA Mining Ltd. Interestingly, one of the largest deals by a miner in 2012 was outside of the mining industry. In December, Freeport - McMoRan Copper & Gold Inc. spent $9 billion on two deals acquiring oil and gas assets in the Gulf of Mexico. Freeport shares dropped as much as 17% following the deal, highlighting shareholder anxiety.

For some major miners with money to spend, the lower valuations created buying opportunities. Consider U.S. silver producer Coeur d’Alene Mines Corp.’s decision in early 2013 to buy Vancouver’s Orko Silver Corp. for $350 million, breaking up a deal Orko had made previously with First Majestic Silver Corp. At the time the deal was announced, CEO Mitchell Krebs noted that lower valuations and tight finance markets made it an attractive time to make a move.

Companies with financial constraints have been forced to get creative when it comes to raising money to fund acquisitions or advance projects. We anticipate the need for creativity to continue well into 2013. Equity investors are still content to sit on the sidelines until a marked improvements in the markets appears. Expect miners to continue to consider the bond market, joint-ventures and streaming agreements to finance their projects.
What we don’t expect to see in 2013 are mega-mergers. With a rash of write-downs in 2012 related to significant acquisitions completed in prior years, shareholders are wary, not willing to stomach the risks associated with mega-mergers. Many of the CEOs associated with the announced write-downs have been replaced by leaders peddling a new mandate, bottom-line growth.

To meet bottom-line targets executives will place a significant focus on asset rationalization; as such, it’ll be a key theme amongst senior miners in 2013. Many senior mining companies such as Barrick Gold, BHP Billiton, Anglo-American and Rio Tinto have disclosed they are in the market to sell. As seniors look to divest non-core assets, intermediates with strong cash positions and a track record of successfully bringing projects on-line will be opportunistic, looking for strategic “tuck-in” acquisitions.

In addition, seniors and intermediates looking to de-risk projects will pursue joint venture partners. We expect Chinese and other Asian investors to continue to display interest in these joint venture opportunities as they look to increase their global holdings in the resource sector. Joint-venture arrangements offer Chinese investors many advantages to that of a straight-up takeover, including transfer of skills and knowledge demanded in certain sub-sectors.

As for juniors, the road will remain bumpy. In the absence of available equity, we began to see junior mining companies team up with one-another in 2012, in an attempt to move their projects forward. Looking to pair the strength of one company with the strength of another, mergers can help create a stronger, more resilient mining company – better positioned to ride out the equity down-turn.

Overall, those participating in the deal market will remain cautious not to overpay for assets or make investments that appear too risky to shareholders. While 2012 was already a disciplined year for M&A activity, miners will be at least as cautious in 2013.

“As a buyer we see a lot of opportunity right now in these non-producing companies, where the capital markets have been mostly unavailable to them and where they don’t seem to be receiving the same kind of value as they have been, especially in this price environment, so we see that as a terrific opportunity.”

Mitchell Krebs, CEO
Coeur d’Alene Mines Corp
Global Mining Deals

It was a roller-coaster year for commodity prices in 2012, but dire predictions of the end of the mining “super cycle” were proven to be little more than fear mongering. While China’s economy slowed to 7.8% GDP in 2012, after several years of double-digit growth, construction and manufacturing activity remains robust. It should also be noted that today’s growth is happening on the base of a much larger Chinese GDP, as compared to the double-digit growth experienced of years past, meaning the bar is much higher.

China also recently surpassed the U.S. as the world’s biggest trading nation in 2012, which could bode well for future commodity demand. Despite this, markets and observers appear cautious as they wait to see how China’s economy will transition in the near term.

Regardless of investor doubt copper, zinc, silver and gold all saw price improvements in 2012. Copper was up 3%, and is currently trading around $3.60 a pound. While copper is down from its record of $4.60 a pound, set in early 2011, it’s up considerably from late 2008 where it sat at $1.30 per pound.

Some investors are betting global copper production will begin to wane as higher costs and shaky markets lead to a delay in project development and slow production in the short term. The theory is that a production slowdown will create supply constraints down the road, if copper demand remains steady, which could help support strong prices long-term.

At the same time that copper prices were recovering in 2012, investors continued to buy gold as an inflation hedge and a solid long-term investment amid the global economic unease. Bullion is currently trading around $1,600 an ounce, having edged back from about $1,500 in mid-2012. The uptick is due in part to aggressive monetary policies continued by Europe, US and Japan with the intent to boost their lagging economies.

### Commodity prices

Commodity prices beat naysayer expectations

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## Annual performance of select mining commodities (% change from Jan. 1 - Dec. 31 2012)

- Zinc: +11%
- Silver: +9%
- Gold: +7%
- Copper: +3%
- Met Coal: +0.4%
- Iron Ore: +0.2%
- Nickel: -10%
- Thermal Coal: -15%

Source: S&P Capital IQ, PwC analysis, Bloomberg
The price of gold is also supported by an increase in buying from central banks around the world. A World Gold Council report released in February 2013 shows this trend is continuing. The report says annual gold demand in 2012 was 15% higher than the average for the previous 5 years, “with much of that growth coming from the physical bar segment of investment demand and central bank purchases.” According to the report, central bank demand for gold grew to 12% in 2012, as compared to 10% in 2011. Total net purchases by central banks of 534.6 tonnes exceeded 2011’s already strong total “and signaled a return to levels of buying last seen almost 50 years ago,” the report states. Since first becoming a net purchaser in the second quarter of 2009, the Council notes that central banks have added almost 1,100 tonnes to global gold reserves, “almost reversing the 1,143.0t of net sales conducted over the preceding three years.”

The HSBC global base metals index is comprised of over 35 publicly traded companies with a combined market capitalization of over $140 billion. This graph shows that while there was some volatility earlier in 2012, by the end of the year the index was up by 3%.

This graph demonstrates that over the past ten years there has been a strong correlation between gold prices and central bank balance sheet expansion. This correlation has strong potential to continue in the future.
Market uncertainty and volatile commodity prices took their toll on the volume of M&A transactions in 2012. There were 1,803 transactions in 2012, the lowest level since 2005. Volume in 2012 was also down more than 30% as compared to 2,605 transactions in 2011. However, for some context, 2011 was the second busiest year for mining M&A activity in history. Still, the drop in 2012 reflects the nervousness many miners had to finance future growth. Many buyers weren’t ready to put up the funds, while sellers were reluctant to agree to takeovers at lower valuations.

The value of mining deals also dropped in 2012, as compared to the year before. In 2012, M&A values totaled $110 billion, which includes the Glencore-Xstrata $54 billion merger. Without this merger deal value plummets to $56 billion. That compares to a total deal value of $149 billion in 2011.
Global mining M&A average deal values

Source: S&P Capital IQ, PwC analysis

Volume and value by quarter

Source: S&P Capital IQ, PwC analysis
## Top 20 Global Mining Deals in 2012
*(by value, $US million, historical rate)*

<table>
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<tr>
<th>Announced Date</th>
<th>Target/Issuer</th>
<th>Target/Issuer Headquarters</th>
<th>Total Gross Transaction Value</th>
<th>Target Resource Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>02-07-2012</td>
<td>Xstrata plc</td>
<td>Switzerland</td>
<td>$54,000</td>
<td>Diversified Metals</td>
</tr>
<tr>
<td>10-28-2012</td>
<td>Inmet Mining Corporation</td>
<td>Canada</td>
<td>$6,700</td>
<td>Copper</td>
</tr>
<tr>
<td>08-23-2012</td>
<td>Anglo American Sur SA</td>
<td>United Kingdom (Chile)</td>
<td>$2,900</td>
<td>Copper</td>
</tr>
<tr>
<td>02-01-2012</td>
<td>Richards Bay Mining (Pty) Ltd. Richards Bay Titanium (Pty) Ltd.</td>
<td>South Africa</td>
<td>$1,910</td>
<td>Diversified Metals</td>
</tr>
<tr>
<td>01-17-2012</td>
<td>Roy Hill Holdings Pty Ltd.</td>
<td>Australia</td>
<td>$1,560</td>
<td>Iron Ore</td>
</tr>
<tr>
<td>01-22-2012</td>
<td>Minefinders Corp. Ltd.</td>
<td>Canada</td>
<td>$1,430</td>
<td>Gold</td>
</tr>
<tr>
<td>09-25-2012</td>
<td>KazzInc JSC</td>
<td>Kazakhstan</td>
<td>$1,400</td>
<td>Copper</td>
</tr>
<tr>
<td>03-08-2012</td>
<td>Neo Material Technologies Inc.</td>
<td>Canada</td>
<td>$1,300</td>
<td>Rare Earth Metals</td>
</tr>
<tr>
<td>01-05-2012</td>
<td>Kolwezi Investments Limited Frontier Sprl La Compagnie minière de Sakania Sprl Roan Prospecting &amp; Mining SPRL</td>
<td>South Africa, Democratic Republic of Congo</td>
<td>$1,250</td>
<td>Copper</td>
</tr>
<tr>
<td>09-18-2012</td>
<td>CGA Mining Limited</td>
<td>Australia</td>
<td>$1,196</td>
<td>Gold</td>
</tr>
<tr>
<td>12-31-2012</td>
<td>ArcelorMittal Mines Canada Inc.</td>
<td>Luxembourg (Canada)</td>
<td>$1,100</td>
<td>Iron Ores</td>
</tr>
<tr>
<td>03-01-2012</td>
<td>Eramet SA</td>
<td>France</td>
<td>$1,035</td>
<td>Diversified Metals</td>
</tr>
<tr>
<td>07-20-2012</td>
<td>Kumba Iron Ore Ltd.</td>
<td>South Africa</td>
<td>$909</td>
<td>Iron Ore</td>
</tr>
<tr>
<td>11-19-2012</td>
<td>Talison Lithium Limited</td>
<td>Australia</td>
<td>$769</td>
<td>Diversified Metals</td>
</tr>
<tr>
<td>10-09-2012</td>
<td>AuRico Gold de México, S.A. de C.V.</td>
<td>Mexico</td>
<td>$750</td>
<td>Gold</td>
</tr>
<tr>
<td>06-29-2012</td>
<td>Allied Gold Mining PLC</td>
<td>Australia</td>
<td>$650</td>
<td>Gold</td>
</tr>
<tr>
<td>04-26-2012</td>
<td>Trelawney Mining and Exploration Inc.</td>
<td>Canada</td>
<td>$613</td>
<td>Gold</td>
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<tr>
<td>12-14-2012</td>
<td>Mimosa Investments Limited</td>
<td>Zimbabwe</td>
<td>$550</td>
<td>Precious Metals</td>
</tr>
<tr>
<td>12-07-2012</td>
<td>Camrose Resources Daletona Properties Limited</td>
<td>Democratic Republic of the Congo</td>
<td>$549</td>
<td>Copper</td>
</tr>
<tr>
<td>10-29-2012</td>
<td>Billion Win Capital Limited</td>
<td>British Virgin Islands</td>
<td>$537</td>
<td>Iron Ore</td>
</tr>
<tr>
<td>Acquirer</td>
<td>Acquirer Headquarters</td>
<td>Transaction Status (at February 25, 2013)</td>
<td>Target Stock Premium - One Month Prior (%)</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-----------------------</td>
<td>-------------------------------------------</td>
<td>--------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Glencore International plc</td>
<td>Switzerland</td>
<td>Announced</td>
<td>17.8</td>
<td></td>
</tr>
<tr>
<td>First Quantum Minerals Ltd.</td>
<td>Canada</td>
<td>Announced</td>
<td>43.7</td>
<td></td>
</tr>
<tr>
<td>Mitsui &amp; Co. Ltd.</td>
<td>Japan</td>
<td>Closed</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Rio Tinto plc</td>
<td>Chile</td>
<td>Closed</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>POSCO</td>
<td>South Korea</td>
<td>Closed</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Pan American Silver Corp.</td>
<td>Canada</td>
<td>Closed</td>
<td>45.8</td>
<td></td>
</tr>
<tr>
<td>Glencore International plc</td>
<td>Switzerland</td>
<td>Closed</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Molycorp Inc.</td>
<td>United States</td>
<td>Closed</td>
<td>33.6</td>
<td></td>
</tr>
<tr>
<td>Eurasian Natural Resources Corp plc</td>
<td>United Kingdom</td>
<td>Closed</td>
<td>N/A</td>
<td></td>
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<tr>
<td>B2Gold Corp.</td>
<td>Canada</td>
<td>Closed</td>
<td>46.9</td>
<td></td>
</tr>
<tr>
<td>POSCO</td>
<td>South Korea</td>
<td>Announced</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>CSC Steel Australia Holdings Pty Ltd.</td>
<td>Australia</td>
<td>Announced</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Fonds Stratégique d’Investissement SA</td>
<td>France</td>
<td>Closed</td>
<td>0.0</td>
<td></td>
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<tr>
<td>Anglo South Africa Capital (Proprietary) Ltd.</td>
<td>United Kingdom</td>
<td>Closed</td>
<td>(11.8)</td>
<td></td>
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<tr>
<td>Windfield Holdings Pty Ltd.</td>
<td>China (Australia)</td>
<td>Announced</td>
<td>15.6</td>
<td></td>
</tr>
<tr>
<td>Minera Frisco, S.A.B. de C.V.</td>
<td>Mexico</td>
<td>Closed</td>
<td>N/A</td>
<td></td>
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<tr>
<td>St Barbara Ltd.</td>
<td>Australia</td>
<td>Closed</td>
<td>81.2</td>
<td></td>
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<tr>
<td>IAMGOLD Corp.</td>
<td>Canada</td>
<td>Closed</td>
<td>35.8</td>
<td></td>
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<tr>
<td>National Indigenisation and Economic Empowerment Fund</td>
<td>Zimbabwe</td>
<td>Announced</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>ENRC Congo B.V.</td>
<td>United Kingdom</td>
<td>Closed</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Prosperity International Holdings (H.K.) Ltd.</td>
<td>Hong Kong</td>
<td>Announced</td>
<td>N/A</td>
<td></td>
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Gold and copper dominated M&A activity in 2012, as miners took advantage of lower valuations to fund future growth. These two metals together accounted for half of the Top 20 deals in 2012, even before considering their mix in diversified metal mergers.

Excluding the mega Glencore-Xstrata merger, 30% of M&A value was in the copper space, followed by gold at 27%. That compares with copper at 23% and gold at 13% of the value of all deals in 2011, when coal was the dominant commodity accounting for 26% of deal value.

Continued interest in gold is expected in 2013, with new interest from Chinese investors pursuing off-shore gold assets expected. Shandong Gold's acquisition of Australian Focus Minerals for $225 million and Zijin Mining's acquisition of Australian Norton Gold Fields for $223 million are recent demonstrations of China's emerging interest in global gold assets.

Gold accounted for the highest volume of deals in 2012 at 30%, followed by copper and diversified metals at 14% each. Gold and copper weren’t far off from last year’s deal volume of 31% and 13% respectively.

Gold and copper are both popular metals, for different reasons. With gold, investors are turning to the precious metal as a hedge against currency debasement and general economic uncertainty. Copper, on the other hand, is considered a bet on the future health of the global economy. The fact that both copper and gold prices rose in 2012, when they are normally supposed to perform opposite of one another, proves just how volatile markets were in the year. No wonder investors were so skittish.

Iron ore also turned up a few times among the Top 20 deals of 2012, particularly among steelmakers looking to boost access to this key steelmaking ingredient. South Korea’s POSCO, the world’s fourth-largest steelmaker, purchased a stake in Australia’s Roy Hill project in early 2012, and at the end of the year it was part of a consortium that bought a 15 per-cent stake in ArcelorMittal Mines Canada Inc. Anglo American also increased its stake in South African iron ore producer Kumba Iron Ore Ltd. by 4.5% to just under 70%, at a cost of $909 million.

Strong deal activity in the iron ore space is not anticipated for 2013. With the majority of large diversified miners still nursing their wounds from recent write-downs, executives will be more focused on their existing portfolio of projects, cost containment and free cash flow – with little resources and appetite left for acquisitions.
Uranium, on the other hand, appears to be making a comeback as producers take advantage of prices that have been depressed since the March 2011 Fukushima nuclear facility disaster in Japan. As Japan slowly restarts its nuclear plants and China continues its aggressive nuclear power plant build out, uranium prices are expected to see a lift, creating some M&A incentives. So far this year we’ve seen Denison Mines Corp. offer a stock-swap deal for Fission Energy Corp., while Russia’s state uranium firm ARMZ proposed to take Canada’s Uranium One Inc. private in a $1.3 billion deal. There have also been reports that the European governments (Germany, Britain and the Netherlands) that own Urenco, the world’s second-largest nuclear fuel vendor, are looking to sell. Cameco Corp. CEO Tim Gitzel told Reuters in February that his company is monitoring the potential sale of Urenco, but isn’t sure it would make a bid. “We’re watching the file,” Mr. Gitzel said. “We think there are some synergies between uranium production and enrichment.”

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**Value (includes Glencore-Xstrata deal)**

- **Gold**: 14
- **Iron Ore**: 6
- **Copper**: 14
- **Other**: 10
- **Diversified Metals**: 56

**Volume**

- **Gold**: 30
- **Iron Ore**: 14
- **Copper**: 14
- **Other**: 38
- **Diversified Metals**: 30

Source: S&P Capital IQ, PwC analysis

**Value (excludes Glencore-Xstrata deal)**

- **Gold**: 30
- **Iron Ore**: 12
- **Copper**: 30
- **Other**: 21
- **Diversified Metals**: 27

Source: S&P Capital IQ, PwC analysis
Closer look by resource

Gold
Top buyers*: Canada 44%, Australia 14%, US 11%
Top targets*: Canada 35%, Australia 14%, US 11%
Average deal value: $60 million
Average deal premium**: 47%

Iron Ore
Top buyers*: Australia 26%, Canada 12%, China 9%
Top targets*: Australia 26%, Canada 18%, China 9%
Average deal value: $137 million
Average deal premium**: 18%

Copper
Top buyers*: Canada 39%, Australia 18%, US 8%
Top targets*: Canada 38%, Australia 18%, US 8%
Average deal value: $112 million
Average deal premium**: 62%

* expressed as % of total buy side volumes.
** expressed as % premium over share price one month prior to announcement
Deal activity by geography
Switzerland leads? Canada strong, China continues momentum
Canadian-based mining companies were the most active on the M&A stage in 2012, when the Switzerland-based Glencore commodities giant is excluded from the picture. First Quantum, Pan American and B2 Gold were the Canadian buyers in the 10 largest deals of the year. U.K.-based companies were the second biggest buyers, followed by Australia and China.

China’s deal activity at 5% of value (including Glencore-Xstrata) is down from last year when it accounted for 11% of value. But don’t mistake this as a retreat from the world’s largest consumer of commodities. Excluding the Glencore-Xstrata deal, China made up 9% of deal values. Furthermore, China has expressed continued commitment to hunt for opportunistic deals in the global resource space.

China has also increased its foreign investment targets, specifically in the gold and copper space, which bodes well for future Chinese M&A activity in the global mining sector.

Overall, after a tumultuous year in places such as South Africa, which struggled through political unrest and violent strikes, mining companies are looking for security. Social and political conflict remain the key investment barrier for the mining sector in regions rich with resource potential, but currently wrought with risks.
Global Mining Deals

“...It’s an unusual time for the mining industry,” Teck Resources CEO Don Lindsay told PwC. “It’s challenging to get projects built because of issues with permitting and concerns in the market around rising costs. At the same time it’s challenging to buy existing assets as the market is concerned about over-paying.”

Rightfully so? With the number of crippling write-downs announced in 2012 by senior mining companies, shareholders are discouraging executives from pursuing expensive acquisitions. Rio Tinto, Anglo American, Barrick Gold and Kinross, to name the main headline grabbers, all had to break the news to shareholders in 2012 of multi-billion dollar write-downs.

It’s safe to say mega-mergers will be placed on the shelf while executives seek to prove they are being prudent with shareholder dollars and are able to realize positive results on significant acquisitions made in the past few years.

With mega-mergers out of the way and the importance of the bottom-line front and centre, 2013 will be all about asset rationalization. Deal activity will be driven mainly by two things: senior miners looking to divest non-core assets and seniors looking to de-risk projects through joint-ventures. Where will the buyers come from? Expect to see China step-up to the plate, especially where joint-venture opportunities in the gold and copper space are concerned. Chinese investors appear to be more and more interested in teaming up with experienced world players who offer the opportunity to de-risk their portfolios, gain knowledge related to project development and production efficiency.

As for juniors, their struggle to raise equity will create opportunities for intermediates looking for strategic “tuck-in” acquisitions. But the market will only support such acquisitions if the acquirer boasts a strong cash position and track record of successfully bringing projects into production. Unfortunately, 2013 is not looking any sunnier for juniors, with equity markets expected to remain closed to higher risk investments.

2012 saw much resistance from junior mining executives unwilling to hand over their company at current valuations. With dwindling cash, challenging equity markets and senior miners focused on cost containment, not M&A, juniors may not be able to turn their backs on opportunist offers from intermediate mining companies in 2013.

What we may see more of in 2013, is junior miners finding opportunities for value creation in one another. Taking strength from one company and matching it with strength from another company, junior miners are merging to create a stronger, more resilient company. For example, a junior with a stellar asset but weak cash position may consider merging with a company that has a strong cash position, but struggling asset.

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2013 Outlook

Asset rationalization will lead to divestitures and joint-ventures
Streaming and royalty agreements, while not part of the traditional M&A fold, continued to make an impact on the mining sector in 2012. Notable deals were announced by Silver Wheaton and Franco-Nevada. Silver Wheaton agreed to pay $750 million for life-of-mine silver production from two of HudBay Minerals’ assets, their 777 mine in Canada and Constancia project in Peru. Later in the year, Silver Wheaton announced a $1.9 billion acquisition of gold streams from Vale’s mines in Canada and Brazil. As for Franco-Nevada, they struck an agreement with Inmet Mining. In exchange for $1 billion in project financing, Inmet agreed to sell future gold and silver production from their Cobre Panama copper mine. We expect streaming companies to continue to play a key role in project financing throughout 2013.

As we conclude our outlook for 2013, we expect this to be a slow year for mining deals, well below last year’s reduced numbers. While the majors will be actively divesting of non-core assets, those will be cautiously evaluated and where the opportunities make sense, we’ll see some deals happen. Juniors serious about shareholder value will have to consider sensible mergers. And lastly, look for more joint-venture deals as larger players look to de-risk. In short, while far from a block-buster year, 2013 should shape up to be challenging, but still way more than “mildly interesting” for mining M&A.

In the next section of this report we take a look at opportunities and challenges expected to influence 2013 deal activity including confidentiality and stand-still agreements, new legislation that’s cleared the way for more certain foreign investment in Canada’s mining sector – specifically investment from Chinese state-owned enterprises, opportunity for miners to create value through re-rating and lastly, we’ll look at an example of two juniors joining forces for the benefit of both shareholder groups.
Juniors find value in their peers: Depressed markets lead to a shift in acquisition targets
In a market where financing can seem as difficult to dig up as the precious metals being mined, juniors with available cash in the bank have a distinct advantage over their peers. Cash-positive juniors are leveraging this advantage to distinguish themselves in a market saturated by juniors under water.

“In a depressed equity market, cash in the bank is very appealing to investors,” Eric Edwards, President and CEO of Lupaka Gold, said during a recent interview with PwC. “It provides a sense of comfort to investors that they won’t be diluted, that the company can absorb unexpected shocks, and that the executive team can implement the business plan and even escalate growth if the circumstances are right.”

“Ultimately, cash gives investors a sense of stability,” Mr. Edwards said.

Yet, with so many juniors grappling to get a portion of the limited cash available, executives are being forced to consider all available financing options, as they seek to balance short-term survival with long-term growth.

“Junior mining companies, especially those with a single exploration asset, are finding it very difficult in this risk adverse market to successfully sell their story,” Mr. Edwards said. In 2012 alone, more than US$955 million of mine financing was cancelled on the TSX. This is up 250% from 2011, when the market experienced cancelled credit/loan facilities and IPOs worth a total US$380 million. “Right now you go where the money is; that means being willing to explore every financing option out there,” Mr. Edwards said.

Challenging finance conditions, matched with an abundance of juniors looking for financing, has thrown the junior mining ecosystem out of balance. Compounding the problem is increased scrutiny among investors toward M&A activity as a result of the recent increase of significant write-downs in the senior mining sector. Executives are being encouraged to focus on bottom-line growth, as opposed to increasing their resource exposure. As a result, a number of juniors that would normally be acquisition targets have been left to fend for themselves in a volatile marketplace.

Lupaka Gold is part of this current trend. “My discussions with senior producers in Peru were not favourably received. They were not interested in new projects; they’re content,” said Mr. Edwards. “With strong commodity prices and cash flow, government support and healthy operations, senior producers are being very selective in terms of acquisition opportunities.” There are many juniors holding excellent assets in Peru, but Mr. Edwards said they don’t have the cash to move forward. Senior producers have become inundated with juniors pitching them projects.

After investigating a number of financing options, Lupaka settled on merging with another junior company, Andean American Gold. Lupaka was looking to aggressively explore and develop its Crucero Gold Project, a 5,500-hectare gold property located in southern Peru, and decided that this merger was the best course of action.

Lupaka Gold Corp.

Peruvian focused gold explorer

Headquarters:
Vancouver, Canada

Assets:
Crucero Gold Project
Invicta Gold Project
17% stake in Southern Legacy Minerals Inc.
“Andean was struggling to sell their story in the marketplace, recognizing that being a single asset company has its challenges,” Mr. Edwards said. “As a result, Andean’s shareholders believed that combining their company with Lupaka Gold would provide the greatest long-term value growth proposition.” For Lupaka, completing a deal with Andean created value in a number of ways. While Andean’s $13 million cash position was very attractive, there were additional Andean assets and other factors that were of significant interest to Lupaka. Lupaka is a Peruvian focused gold exploration company; Andean had two assets in Peru. Lupaka was looking for a good retail investor shareholder base; Andean had 3,000 retail shareholders.

“Taking all these factors into consideration, it was a natural fit that we believe will benefit Lupaka’s shareholders going forward,” Mr. Edwards said.

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**Equity financings: TSX/AIM**

Source: S&P Capital IQ, PwC analysis

**Equity financings: All mining companies, all exchanges**

Source: S&P Capital IQ, PwC analysis
The mining industry has taken some hits in recent quarters. A handful of major miners have announced multi-billion write-downs on assets purchased just a few years ago, when markets were more focused on growth. To build back investor confidence, many miners are seeking ways to add notable shareholder value.

A potential way for mining companies to create shareholder value is by successfully developing or acquiring pre-production properties. The boost in ounces helps them to achieve an intermediate producer re-rating.

“Obtaining intermediate status provides significant strategic advantages,” says Stephen Mullowney Mining Corporate Finance Leader, PwC Canada. “Typically senior gold producers aren’t as well positioned for growth as they battle to maintain production volumes and grow reserves,” shares Mr. Mullowney. Noting, it’s difficult as a senior producer to move the overall valuations needle through the successful execution of small to medium sized projects. “There is a sweet spot in the gold mining industry right around the two-to-five million ounce range, as it provides the best leverage to growth,” says Mr. Mullowney.

A company that has built its business using this theory is New Gold Inc. New Gold sought to increase shareholder value through the merging of junior gold mining companies that possessed strong production potential. In 2008, New Gold, Metallica Resources and Peak Gold formed a three-way merger to form the new, New Gold. Then again in, New Gold merged with Western Goldfields. In a window of just two years, New Gold jumped from being a feisty junior miner, to successfully obtaining an intermediate re-rating.

“Growth is good as bigger companies tend to receive better valuation than smaller companies,” New Gold CEO Bob Gallagher said in the aftermath of its growth spurt. “But the real growth comes when you can acquire an undervalued asset as your growth on a per share basis becomes accretive.”

This strategy has led to a 198% increase in New Gold’s net asset value, since the merger with Western Goldfields.

“Pre-production companies offer tremendous potential for value creation,” says Mr. Mullowney. He said successfully bringing properties into production on time and on budget can lead to a valuation uplift of anywhere between $45 and $135 per ounce.

New Gold isn’t alone in its pursuit of the benefits associated with being a well-established intermediate producer. B2Gold Corp recently finalized its acquisition of CGA Mining Inc for $1.1 billion, increasing production to approximately three-hundred and eighty-five million ounces. “With a 133% increase in production, the market was quick to rewarded B2Gold with a re-rating,” says Mr. Mullowney. “The market favours companies with a strong management team and a track record of successfully bringing projects into production.”

So why aren’t more companies capitalizing on this opportunity? Mr. Mullowney argues that it’s not easy. Doing this kind of deal requires patience, experience, healthy balance sheet and the right team. For companies that are well-equipped, Mr. Mullowney says the value is there for the taking.
By stage of development

Source: Capital IQ, PwC analysis, company reports
February 14, 2013
B2Gold CEO warns of more hostile bids as miners refuse to sell

Clive Johnson
CEO, B2Gold Corp.
When B2Gold Corp. went hunting for its latest acquisition it was surprised by the number of closed doors.

After all, its target was small-to-medium sized miners, many of which were strapped for cash as a result of higher costs and lower valuations. A sale should have been something at least to consider, according to B2Gold CEO Clive Johnson. “The problem we faced was the barrier between us and the shareholders,” Mr. Johnson said in a recent interview with PwC.

As Mr. Johnson sees it, there are too many juniors vying for investment in these volatile markets. “It’s time for consolidation,” Mr. Johnson said. “The market needs consolidation, but senior mining executives need to be willing to accept this fate.”

Eventually, B2Gold struck a deal with CGA Mining Ltd., but not without first facing many roadblocks with other potential targets.

According to Mr. Johnson, too many executives are tied to their position or company to act in the best interest of shareholders. In his experience, many junior mining executives are refusing to sign confidentiality agreements (CAs) or handcuffing their companies with standstill agreements.

“They are either playing games in signing confidentiality agreements or aren’t otherwise receptive to potential deals,” Mr. Johnson said.

As a result of its latest M&A experience, B2Gold changed its CAs process. “If within three months we don’t get everything in the agreed schedule, which includes all the technical and financial information on the company, then the Standstill Agreement goes away,” Mr. Johnson said. “If a company won’t sign that agreement it means all they are trying to do is handcuff us for two years.”

If juniors don’t open up to potential M&A, particularly in this market, Mr. Johnson believes companies can expect to face more hostile deals.

These are strong statements from the seasoned mining executive, but Mr. Johnson said he’s publicly expressing what many other company executives are feeling. Mr. Johnson said a handful of institutions are calling him for names and numbers of companies that are refusing to sign CAs.

“If we are going to force directors and executives to act on behalf of the shareholders we need two things: CEOs to continue to challenge the issue of CAs that tie us up for two years and institutions to stand up and call out CEOs who refuse to sign CAs,” Mr. Johnson said.

As a result of its latest M&A experience, B2Gold changed its CAs process.

“By the way, in the past three months we’ve been able to get 20/25 things, which is better than we expected,” Mr. Johnson said.

Mr. Johnson said many CEOs have taken the issue of CAs to their boards, but not all are willing to face the shareholders. “Some companies simply feel they shouldn’t be required to do this,” he said.

Clive Johnson on being leveraged for success:
“…What I like about being in the intermediate space is not being solely leveraged to the gold price – the deal has to be accretive from a reserve resource basis and cash flow basis. The increase in ounces may look good on your company’s growth chart, but if you ultimately cannot deliver on the project – your success will be short lived. Our strategy is to be leveraged to growth.”

Importance of due diligence:
“We’re rooted in technical capabilities, because the hardest part of our business isn’t doing deals its finding gold in economic quantities and producing it for a profit. Take your time and spend your money wisely by focusing on economic geology.”
Two strategies emerge with Chinese investors

China has become a formidable investor in the global mining sector in recent years. In 2012 alone, China had two transactions in the Top 20 global mining deals. Chinese investors also dominated investment activity among its BRIC growth market peers in 2011, representing nearly half of market-led deal activity, which is a 40% increase from market peaks in 2006.

“Chinese outbound investment patterns have continued to evolve over the last decade, but resources remain a focus for Chinese investors. By value, resources represented approximately 60% of all Chinese outbound investment in 2012,” said Ken Su, Mining Leader of PwC China.

According to Mr. Su, there seem to be two strategies emerging when it comes to Chinese investment activity. This includes larger companies that are seeking big projects in stable countries and smaller investors willing to take a chance on early-stage projects in riskier regions. Mr. Su noted while Chinese investors tend to focus on one of the noted strategies, some investors with sufficient capital may be able to pursue both strategies.

“These are opportunistic strategies,” said Mr. Su.

In particular, he said large Chinese state-owned enterprises are taking on the business tone and strategy of larger mining companies. That includes a more cautious approach as a result of increased government oversight when it comes to M&A approvals.

“There is even competition in the market amongst Chinese companies for deals, as they contend alongside non-Chinese investors for the dwindling number of strong assets available,” shared Mr. Su.
As China seeks to aggressively pursue strategic overseas acquisitions, Mr. Su expects increased consolidation to occur in certain pockets of the Chinese mining sector – leading to the eventual creation of “national champions”.

“China has been investing in off-shore mining for years now and has gained the required experience to compete for world class assets,” says Mr. Su. Consolidation will create the strength and presence needed to aggressively pursue strategic overseas acquisitions – enabling them to slug it out toe-to-toe with the world’s largest senior mining companies.

Mr. Su also noted a shift in commodity preference by Chinese investors, away from steel-making ingredients such as iron ore and into base and precious metals.

Similar to other global mining companies, Chinese companies have faced significant issues getting iron ore projects off the ground. As a result, Mr. Su expects to see more acquisitions in the base metal sector, specifically copper.

However, the real star in 2013 may very well be gold, he said.

“Iron ore has cooled off and gold is hot,” Mr. Su said. “As gold becomes more important to China than ever before we can expect to see strategic deals made by China in the gold space.”

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**Chinese acquisitions 2008-2012, by value**

![Graph showing Chinese acquisitions 2008-2012, by value](source: S&P Capital IQ, PwC analysis)
Canada consults Australia, paving the way for more certain global foreign investment

Winning in a changing world: Canada & emerging markets

In June 2012, four policy experts including Thomas d’Aquino, Len Edwards, Derek Burney and Fen Hampson published a report titled Winning in a changing world: Canada and emerging markets. The report urged Canada to adopt Australia’s approach to foreign investment - an approach that would create a clearer, tougher line with investments from state-owned entities. While Australia’s approach with foreign investors is done on a case-by-case basis it has made clear to the global mining community that the Australian government will not allow foreign government acquisition of the country’s strategic mining assets.

Prime Minister Stephen Harper looked closely at Australia’s approach to foreign investment when amending Canada’s foreign investment strategy. Canada consults Australia, paving the way for more certain global foreign investment

For Chinese firms eager to invest in the resources sector abroad, the Canadian government’s approval of China National Offshore Oil Corporation’s (CNOOC) $15.1 billion acquisition of Calgary-based Nexen was deemed a break through.

However, some mining companies have a different perspective, viewing the Canadian government’s changes to foreign investment policy as a turning point for the country. Upon approving the CNOOC-Nexen deal, Canadian Prime Minister Stephen Harper called his government’s decision “not the beginning of a trend, but rather the end of a trend.”

Added Mr. Harper: “Foreign state control of oil sands development has reached the point at which further such foreign state control would not be of net benefit to Canada.”

“It’s not as cut-and-dry as it sounds,” said Derek Burney, Senior Strategic Adviser at Norton Rose LLP.

In a recent interview with PwC, Mr. Burney said the decision strikes a delicate balance between Canada’s need for foreign investment in its resource sector and concern regarding foreign control of Canadian resources. “The hard reality is Canada needs approximately $650 billion in capital, mostly foreign, by the end of this decade,” Mr. Burney said. “Mr. Harper was careful not to send the message Canada was shutting its door on foreign investment, including investment from state-owned entities.”

Instead, Mr. Burney said he expects the government to maintain an open, market-based approach to foreign investment in the mining sector.

“That being said, significant foreign investment in mining will still undergo careful government scrutiny, with investment interests from state-owned entities undergoing even more scrutiny,” Mr. Burney cautioned.
What can foreign investors interested in Canada’s mining sector learn from the CNOOC deal? A lot, Mr. Burney argues. Taking into account the “net benefit” test, which requires a company to prove its investment is good for Canadians, CNOOC launched a public and government relations strategy to ensure the substance of their message was heard, Mr. Burney said.

It’s a strategy he believes other foreign companies can learn from.

“My advice to foreign entities looking to invest in Canada’s natural resource sector would be to gauge the political mood at the time and adapt your strategy accordingly,” Mr. Burney said.

That could include investments other than an outright takeover. For example, Mr. Burney said a joint-venture agreement is another good option for some investors.

“A joint venture offers many strategic advantages,” said Mr. Burney. “There can be a cross-pollination of knowledge and skills.”

Despite some suggestion that the foreign investment climate in Canada has cooled, Mr. Burney believes Canada’s mining sector will see steady, if not increased interest from foreign investors, particularly now that the rules have been made clear.

Still, to keep the momentum going, foreign companies already invested in Canada must make sure to meet their “net benefit” commitments. Broken promises will not only tarnish their reputation in Canada, but make it more difficult for those that follow, Burney said.
Methodology

Our methodology for M&A analysis is set out below:

• M&A data includes announced mergers or acquisitions (including less than 100% acquisitions / divestitures). Cancelled, dismissed, expired or withdrawn deals are excluded from data (Often, however, deals can be cancelled post publication).

• The acquisition of rights, special warrants and convertible debt are not included in M&A statistics (unless utilized as equity sweeteners). Strategic partnerships which do not involve the acquisition/divestiture of an equity stake are also excluded from our analysis.

• The geography of a buyer is determined by its headquarters. The geography of a target is determined by the location of its major projects (when such information was available).

• Certain transactions involved buyers from more than one geography. As a result, for buyer by region analysis, we utilized appropriate weighting to arrive at aggregate figures.

• For M&A by resource, we classified targets by their primary disclosed resource where possible. In certain cases, a primary resource was not identified. These deals were excluded from our analysis.

• The main source of our data is S&P Capital IQ. S&P Capital IQ includes real estate and property deals in its data.

• Deal currency is US$, historical rate, unless otherwise noted.

• Transaction value refers to total consideration to shareholders, calculated as:
  
  Total Consideration to Shareholders
  + Total Other Consideration
  + Total Earn-outs
  + Total Rights/Warrants/Options
  + Net Assumed Liabilities
  + Adjustment Size
  + Total Cash
  + Short-term Investments

• Mega deals are defined as transactions valued at > $10 billion.

• Mining includes Anthracite Coal Mining, Bituminous Coal and Lignite Mining, Chemical and Fertilizer Mineral Mining, Diversified Metal Ores (Copper, Lead, Nickel, Radium, Tin, Titanium, Uranium, Vanadium and Zinc Ores), Gold, Precious Metals and Minerals, and Iron Ores.
Mining Excellence@PwC

Delivering local solutions to global challenges

The mining sector is facing a range of competing trends and a rapidly changing global business environment. Against the backdrop of commodity price fluctuations, miners need to balance shareholder dividend expectations whilst maintaining an investment pipeline in the midst of increasing operating costs. Safety, environmental and community principles also continue to shape the industry as miners look to achieve their licence to operate and deliver on corporate responsibilities.

Mining Excellence@PwC has been designed to mobilise and leverage PwC’s collective global knowledge and connections to deliver an exceptional and tailored client experience, helping our clients navigate the complex industry landscape and meet their growth aspirations. Our team of specialists is exclusively focused on the sector and brings an industry-based approach to deliver value for you and your organisation.

Mining Excellence@PwC provides our clients:

leading edge knowledge and insight

With significant investment in the research behind our mining publications and a comprehensive industry learning and development program, our professionals can share both industry and technical insight with our clients, such as:

- A library of industry publications designed to help challenge “conventional” thinking and delve into topical industry issues. This includes:
  - flagship publications including Aussie Mine, Mine and Mining Deals
  - The Insight Series focuses on specific issues most important to miners

- An extensive industry development program for our people and clients. This features our annual university-style course Hard Hat: The Mining Experience.

connections to our vast network of mining experts and global client portfolio

We have the widest network of industry experts who work out of strategic mining hubs across the globe to help better connect you to vital mining markets.

Our connections provide:

- seamless client service delivered with collaborative cross-border account management
- maximised deal potential through a well-connected global community of mining leaders
- a well-connected and mobile workforce to ensure effective service delivery in even the most remote mining locations.

the delivery of an experience that meets our clients’ definition of ‘value’

With mining experts working in each key Australian state, our award winning teams are helping clients deliver on specific projects and organisational growth aspirations. We offer advisory, tax and audit services to global corporations and locally listed companies.

Mining Excellence@PwC complements this with:

- a suite of niche mining consulting capabilities focused on optimising value across mining operations and effectively managing risk to help our clients grow their business and deliver shareholder value
- a comprehensive client feedback program to ensure we are always improving and delivering on individual client needs.

“Working in the sector for over 20 years, I have seen and worked across the mining sector in both good times and bad. It’s fantastic to see our clients and PwC teams working together to respond to the ever-changing business dynamics miners face today.”

Tim Goldsmith, PwC Global Mining Leader
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