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# Mining M&A Quarterly Newsletter

Fourth Quarter 2011

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# A Stronger End to 2011

The fourth quarter of 2011 saw mining M&A activity stabilize and turn up from the low levels experienced in the third quarter. Activity levels were still not as strong as they were in the first half, although deal volume in Canada was about the same. Total transaction values increased even as metal prices and equity markets remained volatile, driven by a number of large transactions announced late in the quarter, particularly in Canada.

Despite the weaker second half, for the year 2011 as a whole, and considering only closed transactions, global mining M&A activity by value increased by about 50% to \$100B compared to 2010. Canadian mining M&A activity was also much stronger during 2011, climbing by about 30% year-over-year to \$34B.

**Equity Indices vs. Gold & Copper<sup>1</sup>**

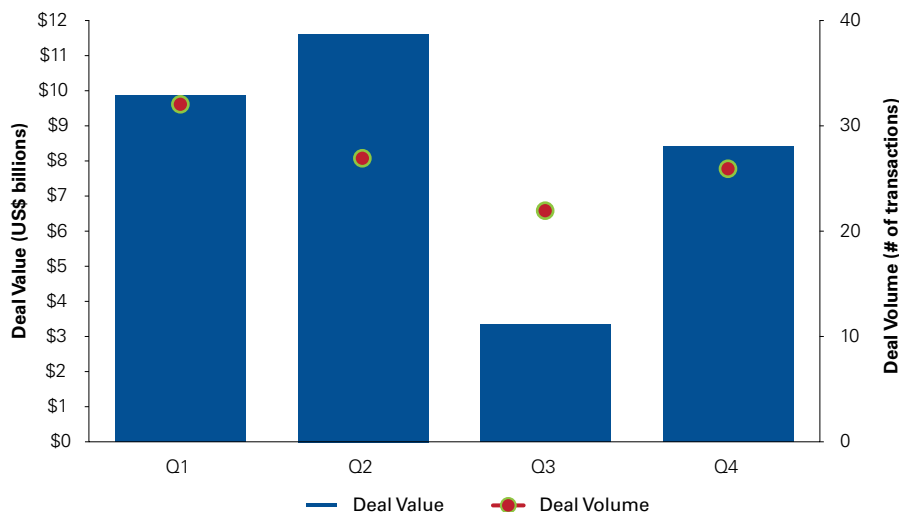


<sup>1</sup> Source: Bloomberg

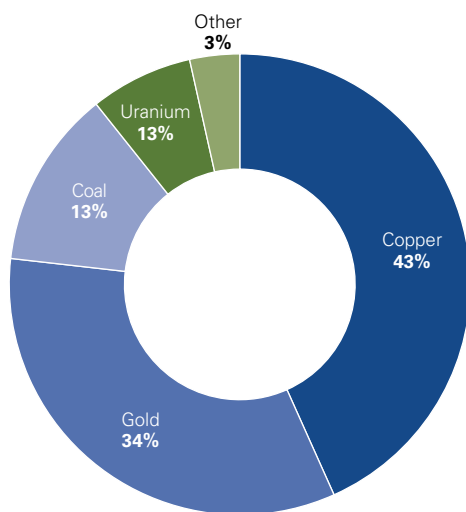


## Canadian transactions and trends

### 2011 Canadian M&A Deal Value and Volume<sup>1,2</sup>



### Q4 2011 Canadian M&A Deal Value by Commodity<sup>1,2</sup>



<sup>1</sup> Source: Thomson, Capital IQ, and KPMG Analysis

<sup>2</sup> Represents pending and closed transactions over \$10 million

In Q4, total deal value in Canada nearly tripled from the lows experienced in Q3, but failed to get back to the levels recorded in the first half. Deal volume was nearly the same as it was in Q2, however, reflecting a smaller average value per transaction.

Activity accelerated as the quarter drew to a close, with the month of December accounting for about 70% of deal value for the entire quarter. Transactions for copper took top spot for deal value during the quarter, after the gold sector had led the way in Q3.

#### Copper and coal consolidation

Copper was the driver of the biggest Canadian deal of the quarter – KGHM's C\$3.5B friendly offer for Quadra FNX. The transaction would significantly diversify KGHM's Polish production base, with producing mines in the United States, Canada and Chile. KGHM had previously communicated to the market its intention of making acquisitions to expand its production base beyond Poland. KGHM re-engaged in its foreign expansion in 2010, when it entered into a joint-venture option agreement with Abacus Mining to acquire up to 80% of the Ajax copper project in British Columbia.

Another notable copper transaction involved Dutch trading firm Trafigura bidding US\$261M to take minority-owned Iberian Minerals private. Following the acquisition of the remaining 52%, Trafigura would gain full control of Iberian's Aguas Tenidas and Condestable mines, located in Spain and Peru respectively.

Canada continued to participate in the global coal consolidation trend as Hong Kong and Japanese investors launched

a joint bid for Alberta-based met coal producer Grande Cache Coal. Grande Cache currently produces about 2 million tonnes of high quality coking coal mostly for the export market. The Japanese investment partner, Marubeni Corporation, had a long-standing business relationship with Grande Cache and a 40-year history with its Alberta mine. Hong Kong-based partner Winsway Coking Coal Holdings had been one of Grande Cache's main customers for the Chinese market. The deal was worth C\$1.0B, representing a 70% premium for Grande Cache shareholders based on the last closing price prior to the bid.

Activity in the uranium sector continued on the back of Cameco's unsolicited offer for Hathor Exploration, announced during the third quarter. In October, Anglo-Australian miner Rio Tinto launched a friendly takeover offer for Hathor. After increasing its initial offer of C\$4.15 to C\$4.70 per share, Rio Tinto eventually gained control of Hathor, agreeing to pay US\$635M for all the outstanding shares.

#### Gold deals continue at modest pace

The pace of gold transactions moderated during Q4, with three deals over US\$100 million announced, representing 34% of M&A activity by value.

The largest gold transaction during Q4 was the proposed merger of Eldorado Gold and European Goldfields, announced late in December. Prior to Eldorado's offer, European Goldfields had agreed terms with Qatar Holding for a US\$600 million loan facility to fund construction of its projects in Greece and Romania. The transaction with Eldorado, worth a total of US\$2.3B, would be financed primarily through the issuance of Eldorado shares. European Goldfields would add 9.2 million ounces of gold reserves and three development-stage projects to Eldorado's six operating mines, which produced 0.7 million ounces of gold in 2011.

### Q4 Announced Transactions – Canada

Announced Date	Target/Issuer	Buyers/Investors	Consideration Value (US\$mm)	Commodity	Country (Target)	Country (Buyer)	Current Status
Dec 6	Quadra FNX Mining	KGHM	\$3,344	Copper	Canada	Poland	Pending
Dec 18	European Goldfields	Eldorado Gold	\$2,348	Gold	Canada	Canada	Pending
Oct 31	Grande Cache Coal	Winsway/Marubeni	\$1,012	Coal	Canada	China/Japan	Pending
Oct 19	Hathor Exploration	Rio Tinto	\$636	Uranium	Canada	United Kingdom	Closed
Nov 17	52% Iberian Minerals	Trafigura	\$261	Copper	Canada	Netherlands	Pending
Oct 11	Auryx Gold	B2Gold Corp	\$126	Gold	Canada	Canada	Closed
Dec 13	Crocodile Gold	Luxor Capital	\$117	Gold	Canada	United States	Pending
Oct 17	Silver Quest Resources	New Gold	\$115	Silver	Canada	Canada	Closed
Dec 21	Lomonosovskoye interest	Newbridge Capital	\$70	Iron Ore	Kazakhstan	Canada	Pending
Nov 30	Goldbrook Ventures	Jilin Jien Nickel	\$65	Ferroalloys	Canada	China	Pending
Dec 16	Astur Gold	Gold-Ore Resources	\$65	Gold	Canada	Canada	Pending
Oct 6	Lossan Deposit (Cline Mining)	Xstrata	\$39	Coal	Canada	Canada	Closed

Source: Thomson, Capital IQ, KPMG Analysis; represents pending and closed transactions above \$25 million as of January 17, 2012

## Global transactions and trends

Worldwide, M&A activity in Q4 almost doubled Q3 in total deal value, making it the second strongest quarter of the year. Deal volume declined however, resulting in a higher average value per transaction. The quarter recorded a total of eleven transactions with values exceeding US\$1.0B, and three of these transactions were in the US\$5 billion range.

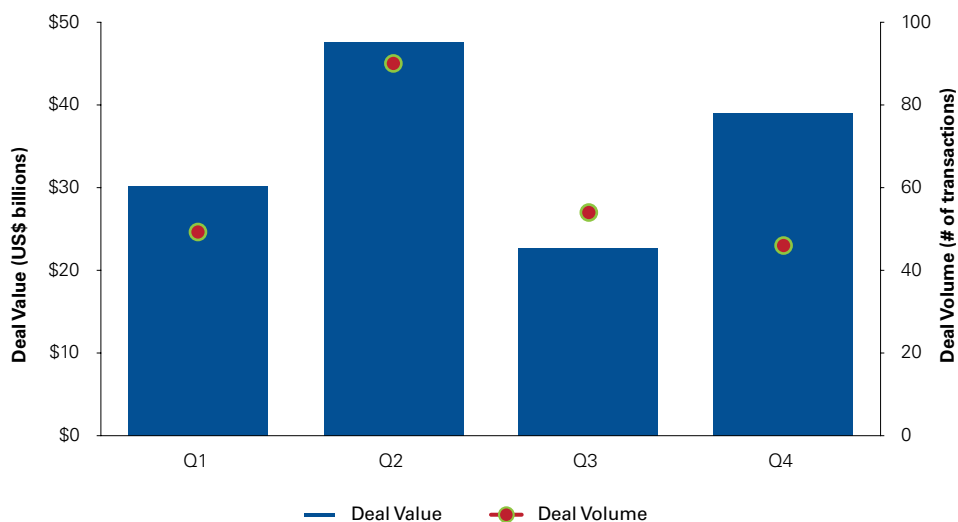
The global mix of targets and acquirers was relatively balanced, with no particular region emerging as a predominant acquirer or target during the quarter. Canadian companies were the top target, attracting 21% of deal value, followed closely by Australia at 17% and the UK at 16%. Japanese firms were particularly active in their pursuit of copper assets, followed by Chinese interests to a lesser degree.

### Chilean copper in the spotlight

The largest and most talked about transaction during the quarter was Mitsubishi's acquisition of a 24.5% interest in Chilean-based Anglo American Sur for US\$5.4 billion. Anglo American Sur consists of the Los Bronces and El Soldado mines, and the Chagres smelter. The unit produced 262ktonnes of copper in concentrate, cathode and sulphate in 2010. The intended transaction represents one of the largest minority copper acquisitions in history.

Codelco, the world's largest producer of copper, announced in October that it intended to exercise an option to acquire a 49% stake in Anglo American Sur in January 2012. Following the announcement by Anglo American to sell the stake, Codelco asserted that it maintained its right to acquire a 49% interest. Anglo American, however,

2011 Global M&A Deal Value and Volume<sup>1,2</sup>



<sup>1</sup> Source: Thomson, Capital IQ, KPMG Analysis

<sup>2</sup> Represents pending and closed transactions over \$50 million

### Q4 Announced Transactions – Global

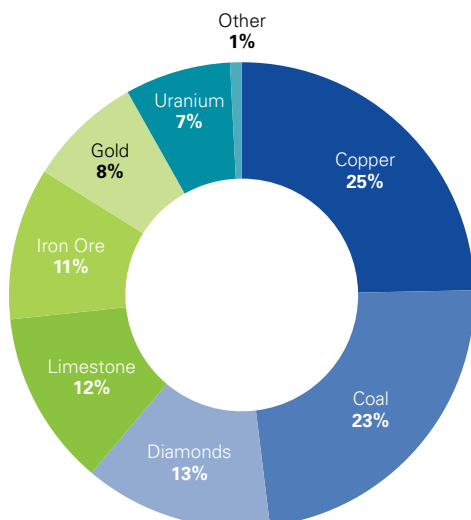
Announced Date	Target/Issuer	Buyers/Investors	Consideration (US\$m)	Commodity	Country (Target)	Country (Buyer)	Current Status
Nov 4	40% De Beers	Anglo American	\$5,100	Diamonds	Luxembourg	United Kingdom	Pending
Dec 12	Vulcan Materials	Martin Marietta	\$4,741	Limestone	United States	United States	Pending
Dec 6	Quadra FNX Mining	KGHM	\$3,344	Copper	Canada	Poland	Pending
Nov 27	Usinas Siderúrgicas de Minas Gerais	International Consortium	\$2,827	Iron Ore	Brazil	International	Pending
Dec 18	European Goldfields	Eldorado Gold	\$2,348	Gold	Canada	Canada	Pending
Dec 5	Aston Resources	Whitehaven Coal	\$2,299	Coal	Australia	Australia	Pending
Dec 23	Gloucester Coal	Yanzhou Coal	\$1,520	Coal	Australia	China	Pending
Dec 9	Extract Resources	Taurus Minerals	\$1,271	Uranium	Australia	China	Pending
Oct 31	Grande Cache Coal	Winsway/Marubeni	\$1,012	Coal	Canada	China/Japan	Pending
Dec 8	57% Kalahari Minerals	China Guangdong Nuclear Power	\$1,009	Uranium	United Kingdom	China	Pending

### Strategic Investments

Nov 9	24.5% Anglo American Sur	Mitsubishi Corp.	\$5,390	Copper	United Kingdom	Japan	Closed
Oct 18	33% Signal Peak Mine	Pinesdale	\$400	Coal	United States	Russia	Closed
Dec 12	30% Antucoya Project	Marubeni	\$354	Copper	Chile	Japan	Pending
Oct 3	10% Maules Creek Mine	J-Power	\$353	Coal	Australia	Australia	Pending
Nov 17	13% CuDeco	New Apex Asia	\$88	Copper	Australia	China	Closed
Dec 29	25% Mineral Hill Mine	Guangdong Guangxin Mining	\$81	Copper	Australia	China	Pending

Source: Thomson, Capital IQ, KPMG Analysis; represents pending and closed transactions above \$1 billion as of January 17, 2012

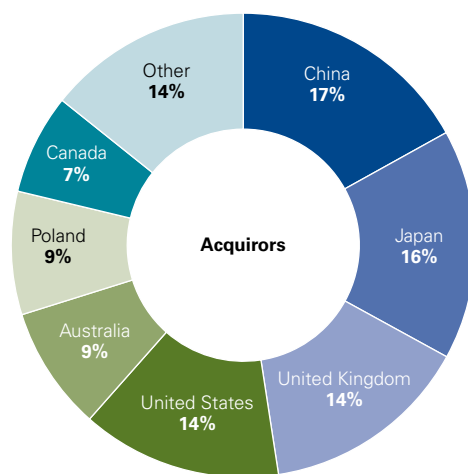
Q4 2011 Global M&A Deal Value by Commodity<sup>1,2</sup>



Q4 2011 Global M&A Deal Value by Geography<sup>1,2</sup>



Q4 2011 Global M&A Deal Value by Geography<sup>1,2</sup>



<sup>1</sup> Source: Thomson, KPMG Analysis

<sup>2</sup> Represents pending and closed transactions over \$50 million

argues that Codelco had breached the contract by prematurely attempting to exercise the option, thereby preventing Anglo American from realizing its contractual rights under the option agreement. Codelco has since filed suit against Anglo American, seeking damages and full disclosure of details pertaining to the transaction with Mitsubishi.

Another transaction involving a Chilean copper asset and a Japanese acquirer involved Marubeni Corporation's acquisition of a 30% interest in the Antucoya copper project from Antofagasta for US\$350 million. Antucoya is expected to produce 80ktonnes of copper cathode per year starting in 2014.

Other notable strategic investments in copper during the quarter included Hong Kong based resources fund New Apex Asia Investments acquiring a 13% stake in CuDeco, and Guangdong Guangxin Mining Resource Group paying US\$80M for a 25% interest in Australia based Mineral Hill project from KBL Mining.

### **Coal consolidation picks up in Australia**

Global consolidation of the coal sector also involved Australia in Q4 as two multi-billion dollar deals took place in that country. In a three-way merger, Whitehaven Coal, Aston Resources and Boardwalk Resources combined operations to form a US\$5B+ coal company with operations across Australia. The combined company will be a significant global producer of semi-soft coking and PCI coal, targeting saleable coal production of 25 million tonnes by 2016.

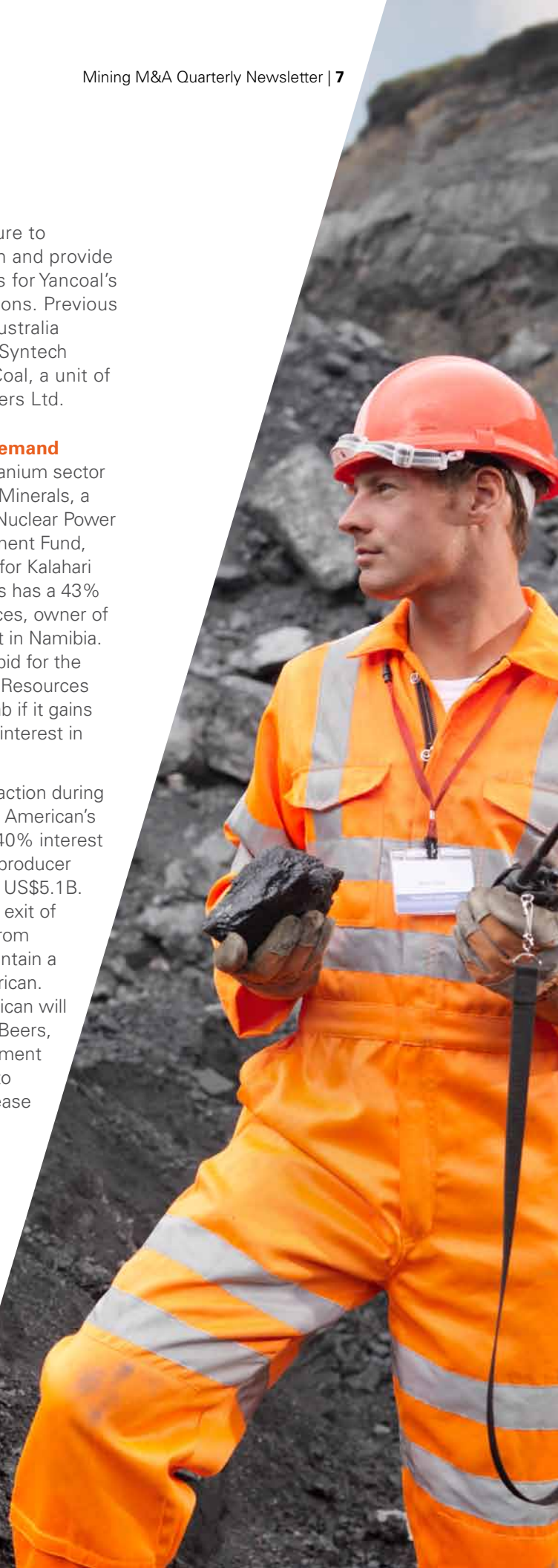
The other major coal transaction involved Yancoal Australia's acquisition of Gloucester Coal. Yancoal Australia is a unit of China-based Yanzhou Coal Mining. This acquisition will

increase Yancoal's exposure to Australian coal production and provide much-needed port access for Yancoal's current Australian operations. Previous acquisitions by Yancoal Australia include Felix Resources, Syntech Resources and Premier Coal, a unit of Australia based Wesfarmers Ltd.

### **Uranium still in global demand**

China was active in the uranium sector during the quarter. Taurus Minerals, a unit of China Guangdong Nuclear Power and China Africa Development Fund, made a £632 million offer for Kalahari Minerals. Kalahari Minerals has a 43% interest in Extract Resources, owner of the Husab uranium project in Namibia. Taurus intends to make a bid for the remaining 57% of Extract Resources to gain full control of Husab if it gains at least a 50% controlling interest in Kalahari Minerals.

Another large global transaction during the quarter involved Anglo American's purchase of an additional 40% interest in South African diamond producer and marketer DeBeers for US\$5.1B. The transaction marks the exit of the Oppenheimer family from DeBeers, though they maintain a 2% interest in Anglo American. Upon closing, Anglo American will gain control of 85% of DeBeers, assuming that the Government of Botswana decides not to exercise its option to increase its interest in the diamond maker from 15% to 25%.



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