



cutting through complexity

Mining M&A Quarterly Newsletter

Second Quarter 2015

kpmg.ca



Quarter rides on potash bid

A blockbuster potash bid announced between PotashCorp of Saskatchewan and K+S AG in late June has the potential to propel global deal value for the second quarter of 2015 to \$16.5 billion. K+S AG rejected the friendly offer two days after quarter-end. Excluding this deal, the quarter still generated \$7.8 billion in deal value, up significantly from \$3.7 billion recorded in the first quarter. Deal volume also rose by 29 percent. While the potash deal was the largest announced deal in the quarter, iron ore and nickel each posted a major transaction, and gold was involved in a spate of smaller deals. Gold and copper were both price gainers in mid-quarter, but finished with slim losses of 3 percent and 5 percent respectively. The global mining stock indices continued their downward trends, posting high single-digit losses.

Equity Indices vs. Gold & Copper¹

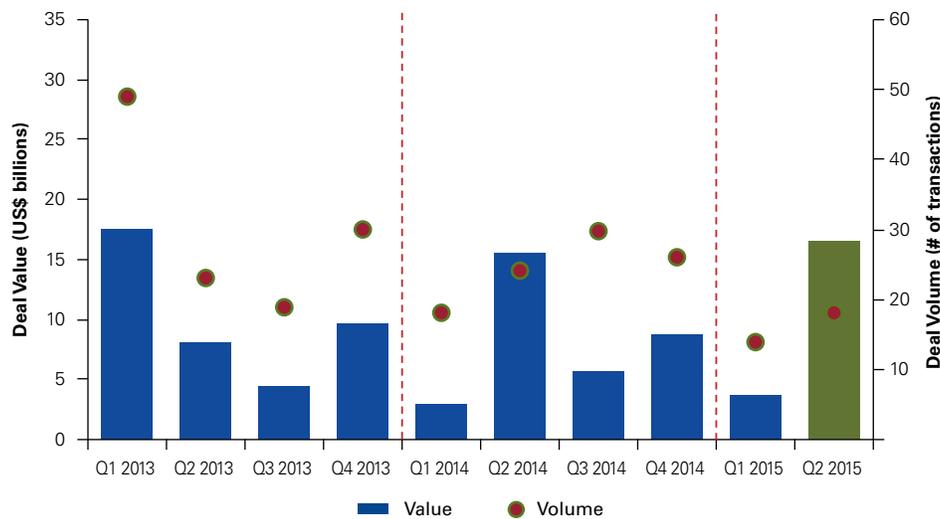


¹ Source: Bloomberg
All figures expressed in U.S. dollars unless otherwise noted

Source: Thomson, CapitalIQ, Company filings, KPMG analysis



Global M&A Deal Value and Volume^{1,2,3}



¹ Source: Thomson, Capital IQ and KPMG Analysis

² Represents transactions above \$50 million

³ Only includes announced transactions; excludes capital raisings and share buy-backs

Potash leads the way

On June 25, PotashCorp of Saskatchewan made a friendly offer of \$8.6 billion to the board of directors of Germany's K+S AG, Europe's major potash supplier and the world's largest supplier of salt products. The bid represented a 40 percent premium to shareholders based on stock prices at the time. K+S is poised to bring a new potash mine into production next year – the Legacy project located in Saskatchewan not far from PotashCorp's mines with a similar capacity of 3 million tonnes per year. PotashCorp is also interested in the dominant market position for nutrients that K+S holds in Europe.

On July 2, the K+S board of directors rejected PotashCorp's offer, saying the price undervalued the company and also expressing concerns about the interests of its 14,000 employees. K+S believes that PotashCorp does not need additional production from the Legacy mine in current market conditions,

and that it intends to curtail all but its lowest-cost operations. PotashCorp denies these comments, saying the transaction would simply combine two best-in-class companies with minimal overlap to create a global producer. The Canadian company remains interested in pursuing its bid, not ruling out the possibility of going directly to K+S shareholders. Discussions continue. PotashCorp itself repelled a multi-billion hostile takeover from Australia's BHP Billiton in 2010. The Canadian Government ultimately blocked the deal.

Iron ore, nickel go big

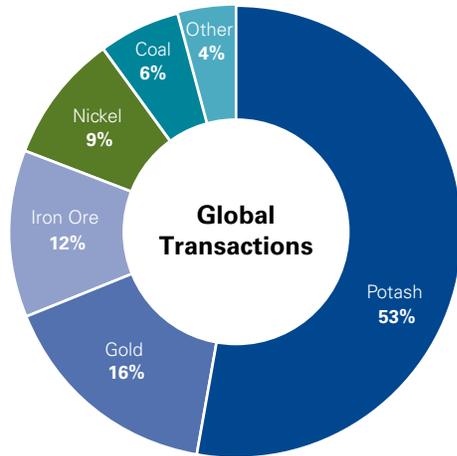
At a time when China's steel industry is slumping, China-based Zhongrun Resources is making a major investment in Mongolia's iron ore sector. Intending to raise \$4.6 billion through a share issue, Zhongrun will spend \$1.9 billion of that equity to acquire three Mongolian companies: Iron Ore International (Mongolia), Mongolia New La Le Gao Te Iron Mining, and Shiny Glow.

The second-largest deal of Q2 comes at a time when the coal and iron ore industries are also suffering through slow demand and lower prices.

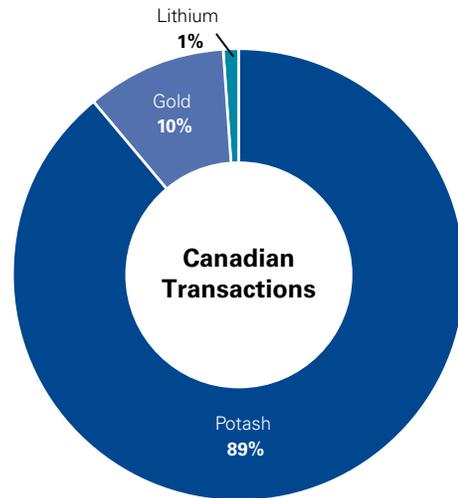
The third-largest transaction of the quarter is an all-Australian affair. Independence Group is spending \$1.4 billion to acquire all the issued capital of Sirius Resources for shares and cash. The prize for Independence Group is the Sirius Nova-Bollinger nickel/copper project in southeast Australia that is fully financed, under construction and expected to begin production in 2017. With Independence Group's diverse portfolio of multi-metal assets and a combined market cap of approximately \$2 billion, the combined entity has the potential to become an ASX 100 company. The founder and managing director of Sirius will depart with control of two exploration assets in a spinoff company called S2 Resources, to be owned by former Sirius shareholders.

Source: Thomson, CapitalIQ, Company filings, KPMG analysis

Q2 2015 Global M&A Deal Value by Commodity^{1,2,3}



Q2 2015 Canadian M&A Deal Value by Commodity^{1,2,3}



¹ Source: Thomson, KPMG Analysis

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¹ Source: Thomson, Capital IQ and KPMG Analysis

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Gold rules the lower tier

For deals under \$1 billion, gold holds down the lion's share of transactions. The largest gold transaction of Q2 was all-American, as Newmont Mining made a move to acquire the Cripple Creek & Victor (CC&V) gold mine from AngloGold Ashanti for \$820 million in cash. Newmont will raise most of the cash through a share issue. CC&V is a 20-year old mine in Colorado that is currently being expanded with a new leach pad, recovery plant and mill. It will enable Newmont to add 350,000+ ounces of gold per year at low all-in sustaining cost.

Canada factored into all remaining gold transactions for the quarter. In an all-Canadian deal, Alamos Gold and

AuRico Gold engaged in a merger of equals to create a new, leading intermediate gold producer. The combined company is expected to yield 375,000 to 425,000 ounces of gold from producing mines in Ontario and in Mexico, with growth potential to reach 700,000 ounces. The development portfolio includes a number of projects in North America and Turkey.

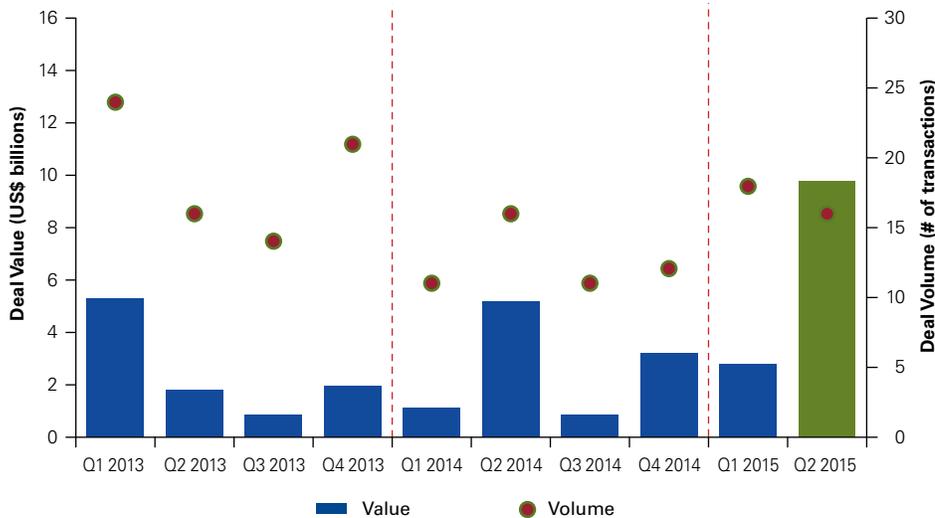
Barrick Gold has sold an asset in Australia to Australia-based Evolution Mining for \$550 million. The Cowal gold mine in New South Wales is a large scale, long life, open pit mine that produces 230,000 to 260,000 ounces per year. The all-in sustaining cost of production is \$850 to \$900 per ounce. The acquisition gives Evolution a total

of seven Australian operations. Evolution will fund the acquisition through an entitlement offer and credit facilities.

Barrick Gold has also agreed to sell a 50 percent interest in the Porgera gold mine in Papua New Guinea to launch a strategic partnership with Hong Kong-based Zijin Mining Group. Zijin will pay \$298 million for this investment. In the future, Barrick and Zijin have agreed to collaborate on projects and investments, leveraging the strengths of each company. Barrick contributes strong operating experience and assets, while Zijin brings engineering and construction management capabilities and access to the Chinese market.



Canadian M&A Deal Value and Volume^{1,2,3}



¹ Source: Thomson, Capital IQ and KPMG Analysis

² Represents transactions above \$10 million

³ Only includes announced transactions; excludes capital raisings and share buy backs

In Q2, Canada also generated a string of all-domestic gold transactions under \$35 million:

- NovaCopper has acquired all shares of Sunward Resources for \$34 million. The merger will provide cash for project development.
- Oban Mining is spending a combined \$86 million to buy Eagle Hill Exploration, Ryan Gold, Corona Gold and Temex Resources, a group of four juniors the company is seeking to consolidate into a larger mining entity.
- Agnico-Eagle purchased all shares of Soltoro for \$25 million, and receives five exploration projects in Mexico.
- GFM Minera acquired NWM Mining from bankruptcy, with a bid of \$22 million.
- Premier Gold Mines acquired Goldcorp's 40 percent interest in Nevada's South Arturo Mine Project for \$20 million.



Q2 Transactions – Global above \$200 million

Announced Date	Target/Issuer	Buyers/Investors	Consideration (US\$m)	Commodity	Country (Target)	Country (Buyer)
Jun 25	K+S	Potash Corp. of Saskatchewan	\$8,675	Potash	Germany	Canada
May 12	Iron Mining International Mongolia	Zhongrun Resources	\$1,935	Iron Ore	Mongolia	China
May 25	Sirius Resources	Independence Group	\$1,412	Nickel	Australia	Australia
Jun 08	Cripple Creek & Victor Gold	Newmont Mining	\$820	Gold	United States	United States
Apr 13	Alamos Gold	AuRico Gold	\$758	Gold	Canada	Canada
Jun 03	Patriot Coal	Blackhawk Mining	\$643	Coal	United States	United States
May 24	Barrick Gold – Cowal	Evolution Mining	\$550	Gold	Canada	Australia
May 26	Ivanhoe Mines – 49.5% Kamoa	Zijin Mining	\$412	Copper	Canada	Hong Kong
May 26	Barrick – 47.5% Porgera	Zijin Mining	\$298	Gold	Canada	Hong Kong
Jun 02	Westmoreland – Kemmerer Mine	Westmoreland Resource Partners	\$230	Coal	United States	United States

Source: Thomson, Capital IQ, KPMG Analysis

Q2 Transactions – Canada above \$20 million

Announced Date	Target/Issuer	Buyers/Investors	Consideration (US\$m)	Commodity	Country (Target)	Country (Buyer)
Jun 25	K+S	Potash Corp of Saskatchewan	\$8,675	Potash	Germany	Canada
Apr 13	Alamos Gold	AuRico Gold	\$758	Gold	Canada	Canada
Jun 30	Lithium Americas	Western Lithium	\$64	Lithium	Canada	Canada
Apr 23	Sunward Resources	NovaCopper	\$34	Gold	Canada	Canada
Jun 09	Eagle Hill Exploration Corp	Oban Mining	\$28	Gold	Canada	Canada
Apr 10	Soltoro	Agnico Eagle Mines	\$25	Gold	Canada	Canada
Jun 09	Ryan Gold	Oban Mining	\$24	Gold	Canada	Canada
Jun 08	NWM Mining	GFM Minera SAPI	\$22	Gold	Canada	Canada
Apr 06	Goldcorp – 40% South Arturo	Premier Gold Mines	\$20	Gold	Canada	Canada

Source: Thomson, Capital IQ, KPMG Analysis

Source: Thomson, CapitalIQ, Company filings, KPMG analysis

Coal sparks a pair of deals

Patriot Coal, currently embroiled in its second Chapter 11 bankruptcy case, has agreed to sell its operating assets to Blackhawk Mining, a privately held company. The price of the sale is \$643 million. The two companies are working to establish a formal purchase agreement, which will then be subject to approval by the U.S. Bankruptcy Courts.

In another all-American coal deal, Westmoreland Resource Partners has agreed to acquire 100 percent of the outstanding equity interest in the Kemmerer Mine, located in Wyoming, from Westmoreland Coal Company. The transaction is part of a “drop-down” strategy being executed by the Westmoreland organization, the oldest independent coal company in the U.S. Upon closing, Westmoreland Coal will receive \$135 million cash, and \$95 million in Westmoreland Resource Partner shares.

Lone transactions in copper, lithium

Copper was saved from inactivity this quarter by a single transaction. In an arrangement very similar to Zijin Mining’s deal with Barrick Gold (see above) Zijin will co-develop the Kamao copper project in the Democratic Republic of Congo with Ivanhoe Mines. To begin the strategic partnership, Zijin will acquire 49.5 percent of Ivanhoe’s interest in the project (95 percent) for \$412 million in cash. The DRC Government is currently reviewing its options relating to its interest (5%) in the project, as well as the interest (49.5%) to be sold to Zijin Mining. With its high copper grade and large tonnage, Kamao could become one of the world’s largest copper mining operations.

Finally, two Canadian lithium companies have agreed to combine their operations and assets. Western Lithium will “take over” Lithium Americas in an all-stock deal valued at \$64 million. Both companies see an advantage in combining their expertise, technology, and two of the leading lithium development projects in the world located in North America and South America.

Source: Thomson, CapitalIQ, Company filings, KPMG analysis



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