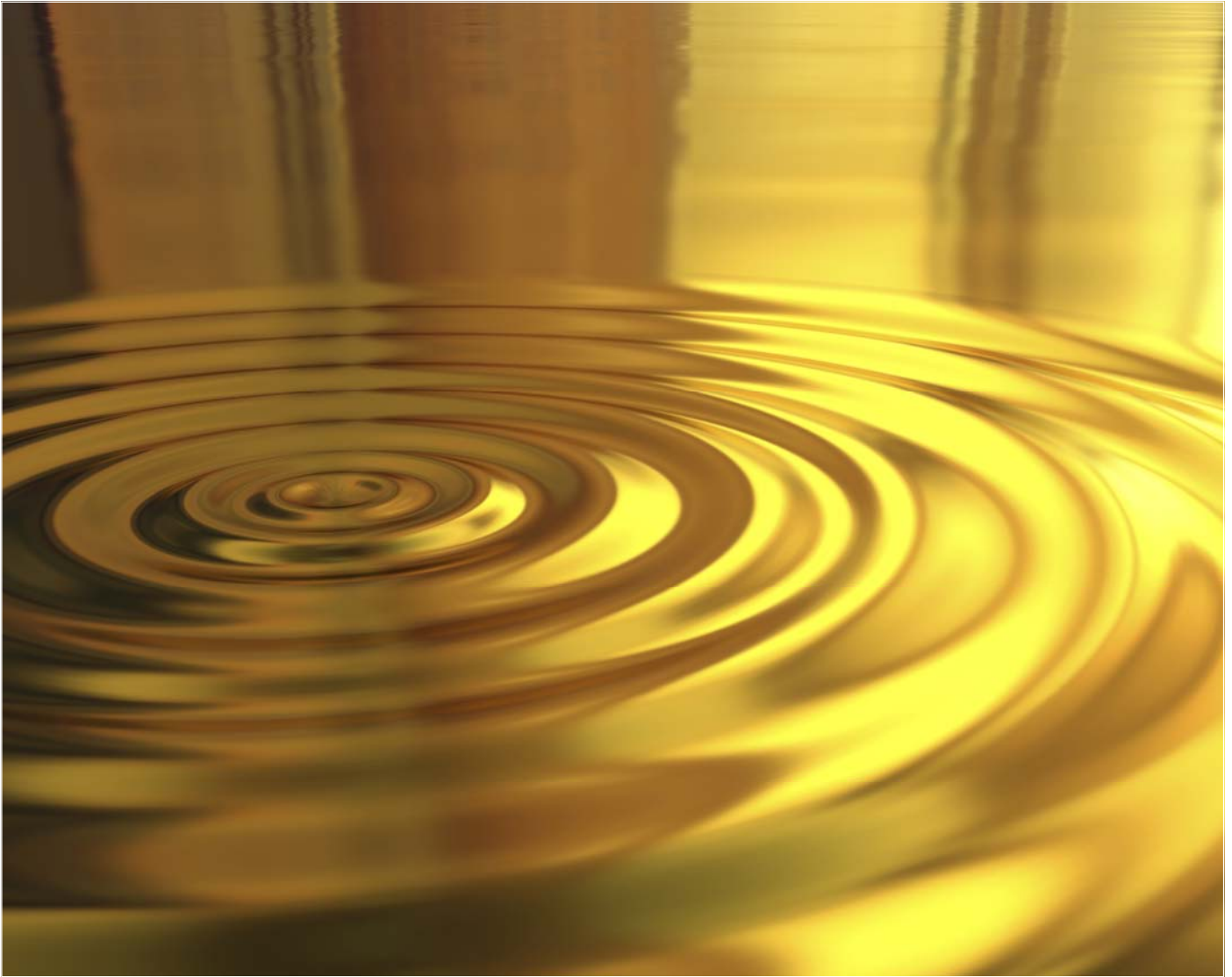




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## Gold Sector M&A report

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Will 2015 pick-up in M&A activity be sustained?

Mining sector report, November 2015

Published by Edison Investment Research

# Gold sector M&A report

Will 2015 pick up in M&A activity be sustained?

27 November 2015

Despite the falling gold price and challenging industry outlook, the gold sector saw a surprising revival in M&A activity in 2015. We believe it was predominantly driven by the sharp depreciation of commodity currencies and the gold price relative outperformance. Our analysis suggests that resource-based valuation multiples have recently approached the peak levels seen in 2011. If commodity currencies remain weak and gold continues to outperform industrial commodities, we believe that the gold sector M&A activity may remain at an elevated level.

## Gold sector M&A activity peaked in 2010...

Mining sector M&A activity peaked in 2010, driven by the recovery in commodity prices, equity markets and corporate activity following the global financial crisis. According to Ernst & Young (E&Y), the overall number of M&A transactions in the mining sector reached 1,123 in 2010, compared to just 564 deals in 2005. Similarly, the gold sector saw 483 M&A deals in 2010 across all regions, against the backdrop of a rising gold price and improving industry outlook. However, since peaking in 2010, the number of M&A transactions in the gold sector fell to just over 200 in 2014 and further to 54 in H115.

## ...but enjoyed a revival in mid-2015 on forex

The gold sector has seen a visible revival in M&A activity in Q315, with the overall value of completed M&A transactions exceeding that in H115. In addition, the share of gold deals in the overall mining M&A pool increased to 36% in Q315, compared to 25% in H115 and 19% in 2014. While the overall industry outlook remains tough, we believe that the material move in exchange rates has been the major driver behind the latest pick up in gold sector M&A volumes, as sharp depreciation of commodity currencies against the US\$ had a pronounced positive impact on gold projects' economics.

## Resource-based valuations returned to peak levels

Our analysis suggests that resource-based valuations of the most representative gold M&A transactions in 2015 approached those achieved in 2011 in US\$ terms, and even slightly exceeded those when compared in local currency terms. Based on our estimates, the implied weighted-average EV/Resource multiple reached US\$135/oz in 2015, compared to US\$144/oz in 2011. In local currency terms, the weighted average multiple was A\$/C\$/US\$160/oz in 2015, compared to A\$/C\$/US\$142/oz in 2011.

## But the rationale behind M&A has changed

It appears that the rationale behind the M&A transactions is somewhat different compared to previous years, with focus shifting towards the quality of assets and stage of project advancement. We believe that the logic behind the current wave of gold M&A is to capitalise on the depressed equity market valuations to better position the company in the downcycle through the acquisition of low opex/capex intensity assets, as well as to move the company up the value chain through the acquisition of producing assets.

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## Investment summary

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Despite the falling gold price and the challenging industry outlook, there has been a revival in gold M&A activity in 2015. We attribute this to the positive impact of the commodity currencies depreciation and the gold price outperformance compared to the majority of industrial commodities. In this environment, the companies with stronger balance sheets took advantage of depressed equity valuations to acquire attractively positioned assets. Our analysis, based on 50 most representative gold sector M&A transactions, suggests that currency-adjusted resource-based valuations have recently approached those seen at the peak of the gold price cycle in 2011. In the event that commodity currencies remain weak and the gold price continues its relative outperformance, we believe that the sector's M&A activity may remain at elevated levels.

Mining sector M&A activity peaked in 2010 on the back of recovering commodity prices, equity markets and corporate activity following the global financial crisis of 2008-09. According to E&Y, the overall number of M&A transactions in the sector reached 1,123 in 2010 compared to just 564 deals in 2005, but since fell to 544 in 2014. This change in the M&A activity trend has to a large extent been driven by the deterioration in commodity prices and investor sentiment due to slowing economic growth in China. Similarly, the gold sector achieved its highest M&A activity level in 2010, with 483 deals completed across all regions, against the backdrop of a rising gold price and improving industry outlook. However, since peaking in 2010, the number of M&A transactions in the sector fell to just over 200 in 2014 and further to 54 in H115. At the same time, the gold price dropped from its historic high of US\$1,900/oz in Q311 to US\$1,206/oz in H115.

However, the gold sector has seen a visible revival in M&A activity in Q315, with the overall value of completed M&A transactions (US\$4.0bn, source E&Y) exceeding that in H115 (US\$3.1bn). In addition, the share of gold deals in the overall mining M&A increased to 36% in Q315 compared to 25% in H115 and 19% in 2014. While the market continues to be dominated by relatively small transactions as the overall industry outlook remains challenging, we believe that the pronounced move in exchange rates has been the major driver behind the latest recovery in gold sector M&A activity. A sharp depreciation of commodity currencies against the US\$ had a visible positive impact on the gold projects' economics either through costs or the top line. As such, the companies with stronger balance sheets took advantage of falling equity valuations and generally negative mining industry sentiment to acquire attractively positioned gold assets. We note that despite falling 43% from its 2011 historic peak in US\$ terms, the gold price has dropped 14% and 23% in A\$ and C\$ terms respectively. It has also outperformed the majority of industrial commodities in 2014-15.

Given the continuing weakness of commodity prices fuelled by the economic rebalancing in China, as well as the protracted period of overinvestment in new mining capacity, it is likely that commodity currencies will remain weak against the US\$, with the latter being also supported by a recovery in the US economy. This, as well as the continuing relative outperformance of gold, could keep M&A activity in the sector at the elevated levels.

In an attempt to analyse the gold sector M&A activity over the recent years, we built a database of major M&A transactions that took place in the global gold sector in 2011-15. The overall number of deals, which include company and project acquisitions as well as mergers, stands at 50, while the total enterprise value of announced and completed transactions amounts to US\$26bn. Our analysis suggests that resource-based valuation multiples of the most representative gold M&A transactions in 2015 approached those achieved in 2011 in US\$ terms and even slightly exceeded those when compared in local currency terms. Based on our estimates, the implied weighted-average EV/Resource multiple reached US\$135/oz in 2015, compared to US\$144/oz in 2011. In local currency terms, the combined weighted average multiple was A\$/C\$/US\$160/oz in 2015, compared to A\$/C\$/US\$142/oz in 2011. We estimate that in 2015, acquirers paid an average premium of

A\$/C\$/US\$25/oz in local currency terms compared to the US\$-based valuations versus a A\$/C\$/US\$2/oz discount in 2011.

However, while the valuation multiples have recently approached those seen at the peak of the gold price cycle, it appears that the rationale behind the M&A transactions has been somewhat different compared to previous years. We believe that the logic behind the current wave of gold M&A is to capitalise on the depressed equity market valuations to better position a company in the downcycle through the acquisition of low-cost assets, as well as to move the company up the value chain through the acquisition of the producing assets.

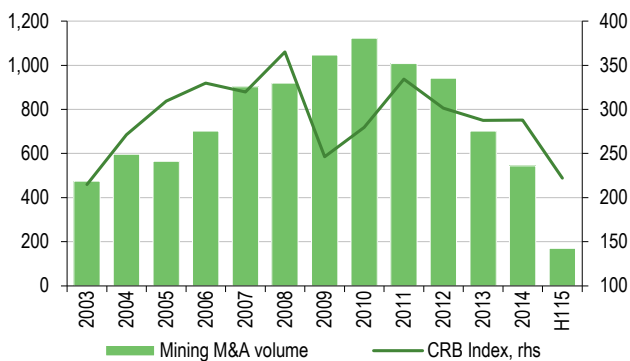
At the regional level, our analysis suggests that Canada dominated the gold M&A space both as acquirer and target region, with 50% and 52% market shares respectively, followed by Australia and the US. However, the regional picture looks slightly different in Q2-Q315, as Australia has clearly seen an increase in M&A activity on the back of a sharp depreciation of the Australian dollar against US\$. Thus, based on our estimates, out of 17 sizeable gold transactions announced so far in 2015, at least five deals involved Australian assets.

## Mining M&A: A top-down view

### Global mining M&A activity peaked in 2010/11

Mining sector M&A activity peaked in 2010 on the back of recovering commodity prices, capital markets and corporate activity, following the global financial crisis of 2008-09. According to E&Y, the overall number of M&A transactions in the mining sector reached 1,123 in 2010 compared to just 564 deals in 2005, but since fell to 544 in 2014. This change in the M&A activity trend has to a large extent been driven by the gradual deterioration in commodity prices, as well as investor sentiment in light of slowing economic growth in China. We note that the CRB Commodity Index (simple average of commodity futures prices) bottomed out in 2009 and was in a recovery mode in 2010/11. This coincided with the highest level of mining M&A as companies took advantage of the improved capital market conditions and relatively attractive valuations. However, as commodity prices started to fall again in 2011, it caused M&A activity to gradually contract, reaching its lowest level in H115, with only 170 M&A transactions completed across all subsectors.

**Exhibit 1: Mining M&A volume vs CRB Index**



Source: E&Y

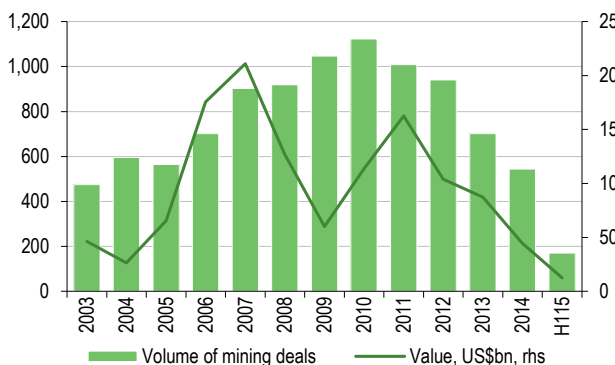
**Exhibit 2: CRB Commodity Index performance**



Source: Bloomberg

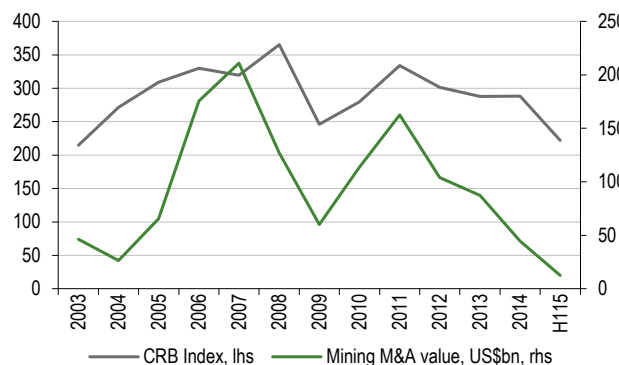
In value terms, mining M&A activity reached record levels in 2007, with an estimated US\$211bn in deals (Exhibit 3). Commodity prices experienced a brief setback in 2006-07, bottoming out in mid-2007, as markets paused for breath before the final leg of the China-driven resource upcycle, which saw the CRB Commodity Index reach its historic highs in July 2008. At the same time, the most recent spike in the value of mining M&A transactions occurred in 2011. Again, this looks to have been closely linked to the recovery in commodity prices following the global financial crisis, with the CRB Commodity Index peaking in April 2011. Since then, both commodity prices and M&A activity have fallen sharply, reaching the lowest levels in H115.

**Exhibit 3: Mining M&A: Volume and value**



Source: E&Y

**Exhibit 4: Mining M&A: Value vs CRB Index**



Source: E&Y, Bloomberg

## Gold sector followed suit, but 2015 saw some M&A revival

Similarly, the gold sector achieved its highest M&A activity levels in 2010, with some 483 deals completed across all regions, against the backdrop of a rising gold price and improving industry outlook. However, since peaking in 2010, the number of M&A transactions in the sector fell to just over 200 in 2014 and further to 54 in H115. At the same time, the gold price dropped from its historic high of US\$1,900/oz in Q311 to below US\$1,200/oz in H115. While the performance of industrial commodities such as copper, iron ore and coal was negatively affected by slowing economic growth in China and rising supply as a result of uncontrolled production capacity expansion, the gold price has nearly halved in 2012-15 on the back of anticipated monetary policy tightening in the US, as well as due to low levels of inflation.

**Exhibit 5: Gold M&A volume vs gold price**



Source: Bloomberg

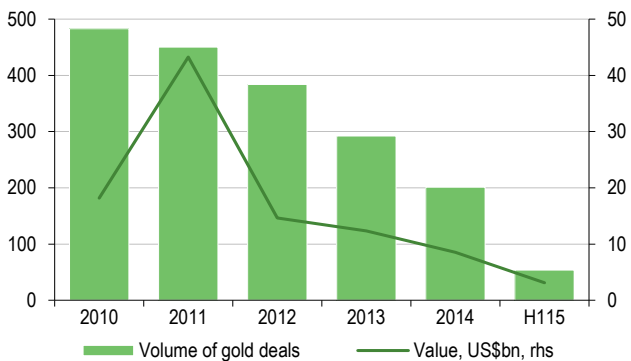
**Exhibit 6: Gold price performance (US\$/oz)**



Source: Bloomberg

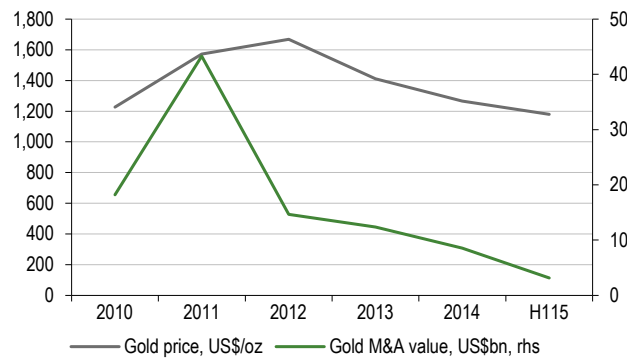
The highest value of gold M&A was achieved in 2011, with some US\$43bn of deals completed across all jurisdictions. It is not surprising that this peak in the value of gold M&A transactions coincided with the historic highs achieved by the gold price. It seems that the overall boost in sentiment and corporate activity in the sector was a result of a three-year consecutive bull run in the gold price, which almost doubled during this period. Needless to say the prevailing industry outlook at that time was benign, supported by loose monetary policy and pronounced risks to global economic growth. Most notable gold transactions in 2011 include the acquisition of Frontier Gold by Newmont (EV of US\$2.2bn), Eldorado's acquisition of European Goldfields (US\$2.3bn) and the acquisition of Northgate by AuRico Gold (US\$1.7bn). Since 2011, gold M&A, both in value and volume terms, as well as the gold price, has been in gradual decline, dropping to just 57 deals, or US\$12.7bn, in H115.

**Exhibit 7: Gold M&A: Volume and value**



Source: E&Y

**Exhibit 8: Gold M&A: Value vs gold price**



Source: E&Y, Bloomberg, Edison Investment Research

It is worth noting that the average value of a mining M&A transaction approached its lowest level in H115. While the historic low was set in 2004 at US\$44m (total number of M&A transactions divided by the overall number of deals) and then tested again in 2009 (US\$57m), the average mining deal



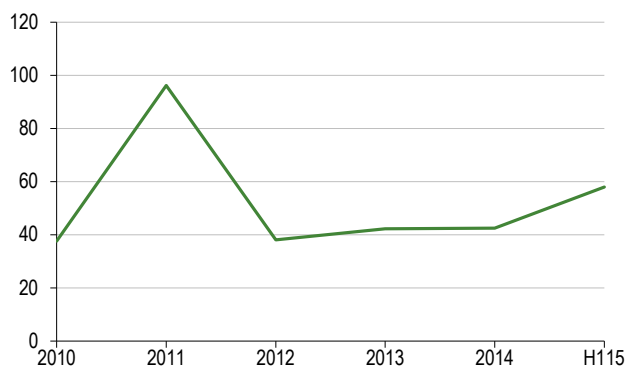
value in H115 came in at just US\$75m (US\$82m in 2014). This could be a reflection of falling industry valuations and the generally smaller size of transactions. In contrast to the overall mining industry trend, the average value of an M&A transaction in the gold sector went up in H115, reaching US\$58m per deal compared to US\$42m in 2014 and US\$38m in both 2010 and 2012. The average gold M&A transaction value peaked in 2011 at US\$96m. Furthermore, based on the preliminary data from E&Y, the gold sector continued to experience a revival in M&A activity in Q315, with the overall value of completed M&A deals reaching US\$4.0bn and exceeding that of H115 (US\$3.1bn). In addition, the share of gold transactions in the overall mining M&A pool increased to 36% in Q315 compared to 25% in H115 and 19% in 2014. While the market continues to be dominated by relatively small transactions as the overall gold industry outlook remains challenging, we believe that the pronounced move in exchange rates have been a major driver behind the latest revival in M&A activity in the gold sector. We discuss the forex impact on gold M&A in more detail below.

**Exhibit 9: Average mining M&A deal value, US\$m**



Source: E&Y

**Exhibit 10: Average gold deal value, US\$m**



Source: E&Y

## Gold sector M&A: A bottom-up view

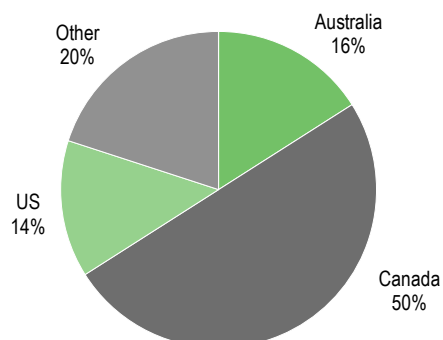
### 50 transactions up to US\$3.5bn in enterprise value

In our attempt to analyse the gold sector M&A activity over the recent years, we built a database of major M&A transactions that took place in the global gold sector in 2011-15. The overall number of deals in the dataset, which include company and project acquisitions as well as mergers, stands at 50, while the total enterprise value (EV) of announced and completed transactions amounts to c US\$26bn. This implies an average deal value of US\$0.5bn (EV range of US\$22m to US\$3.5bn), which is roughly 10 times higher than the historic industry average. Our dataset is therefore skewed towards the larger M&A transactions, which we believe are more representative of the situation in the sector. In general, we tended to focus on the deals exceeding US\$50-70m in enterprise value.

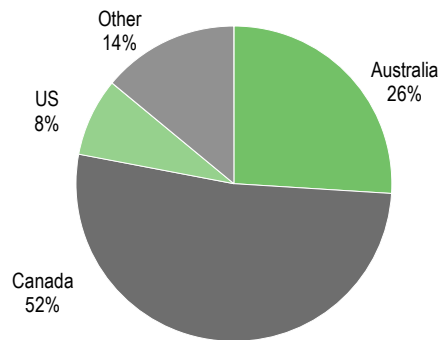
### Canada dominates the regional M&A space

From a regional perspective, our dataset suggests that Canada dominated the gold M&A space both as acquirer and target region, with 50% and 52% market shares respectively, followed by Australia and the US. However, the regional picture looks slightly different in Q2-Q315, as Australia has clearly seen an increase in M&A activity on the back of a sharp depreciation of the Australian dollar against US\$. Thus, based on our estimates, out of 17 sizeable gold transactions announced so far in 2015, at least five deals involved Australian assets. These predominantly occurred in mid-2015 and included the purchase of the Cowal gold mine by Evolution from Barrick Gold (enterprise value of US\$550m) as well as the acquisition of Romarco by OceanaGold (US\$531m). Overall, the largest gold sector M&A transactions in 2015 included the acquisition of the Nevada assets by

Kinross from Barrick Gold (US\$610m), the acquisition of the Cripple Creek and Victor (CC&V) gold project by Newmont from Barrick (US\$820m), as well as mergers between Alamos Gold and AuRico Gold (US\$1.4bn) and Tahoe Resources and Rio Alto Mining (US\$1.4bn). Except for the latest acquisition by Kinross announced in November, all of the above transactions were disclosed in Q215.

**Exhibit 11: Major gold M&A by acquirer region**


Source: Edison Investment Research

**Exhibit 12: Major gold M&A by target region**


Source: Edison Investment Research

**Exhibit 13: Largest gold M&A transactions announced in 2015**

Date	Type	Acquirer	Acquirer country	Target company/asset	Target country	Seller	Deal value, US\$m	Main Assets	Asset country
Nov-15	Acquisition	Kinross	US	Nevada assets	US	Barrick Gold	610	Round Mountain, Bold Mountain	US
Jul-15	Acquisition	OceanaGold	Australia	Romarco	Canada	-	531	Haile gold mine	US
Jul-15	Acquisition	Evolution Mining	Australia	Cowal gold mine	Australia	Barrick Gold	550	Cowal gold mine	Australia
Jun-15	Acquisition	Newmont Mining	US	Cripple Creek & Victor	US	AngloGold Ashanti	820	CC&V	US
May-15	Acquisition	Zijin Mining	China	Porgera JV	Canada	Barrick Gold	298	Porgera JV	Canada
Apr-15	Merger	Alamos Gold	Canada	AuRico Gold	Canada	-	1,406	Young-Davidson, Mulatos, El Chanate,	Canada, Mexico, Turkey
Apr-15	Acquisition	Tahoe Resources	Canada	Rio Alto Mining	Canada	-	1,381	La Arena, Shahuindo	Peru
Apr-15	Acquisition	Evolution Mining	Australia	Australian assets	Australia	La Mancha Group	362	Frog's Leg, White Foil, Mungari CIL	Australia
Feb-15	Merger	Timmins Gold	Canada	Newstrike Capital	Canada	-	140	Ana Paula	Mexico
Jan-15	Acquisition	Goldcorp	US	Probe Mines	Canada	-	440	Borden gold project	Canada
Jan-15	Acquisition	Coeur Mining	US	Wharf mine	US	Goldcorp	105	Wharf mine	US

Source: Company data, Edison Investment Research

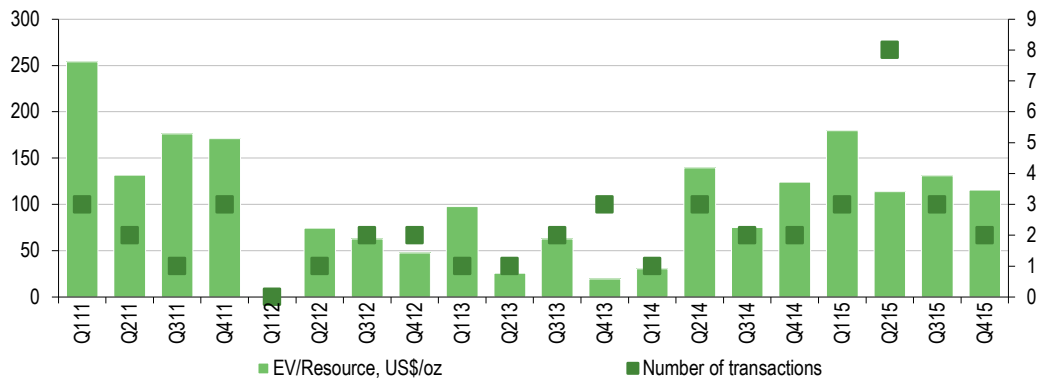
### Valuation peaked in 2011, with some improvements seen in H115

Out of 48 gold M&A transactions announced and completed in 2011-15, some 20 deals involved producing assets, while nine transactions concerned projects at the advanced development stage. Despite the broad range of project development stages in our dataset and different techniques normally used in valuing these stages, when it comes to analysing completed M&A transactions from a valuation perspective, we chose to compare the deals on an EV/Resource basis. While this might misrepresent the nature of transactions involving more advanced projects, it nevertheless allows us to compare the widest range of possible deals, as less advanced projects often lack mineral reserves and production data. Exhibit 14 sets out the evolution of the weighted average EV/Resource multiple across our dataset in 2011-15 and the respective number of transactions for each period. It appears that resource-based valuations peaked in 2011 (weighted average EV/Resource of US\$254/oz including the Newmont deal), with some increase in market activity and valuations occurring in H214 (EV/Resource of US\$124/oz in Q414) and 9M15 (EV/Resource of US\$132/oz). The estimated 2011 peak in gold M&A valuations coincided with the highest level of sector M&A activity by value and the historic high achieved by the gold price (c US\$1,900/oz in



Q311). More recently, Q215 has seen the highest number of M&A transactions, with EV/Resource valuations somewhat improving compared to the relatively low levels demonstrated in 2012-13.

**Exhibit 14: Weighted average EV/Resource and the number of transactions**

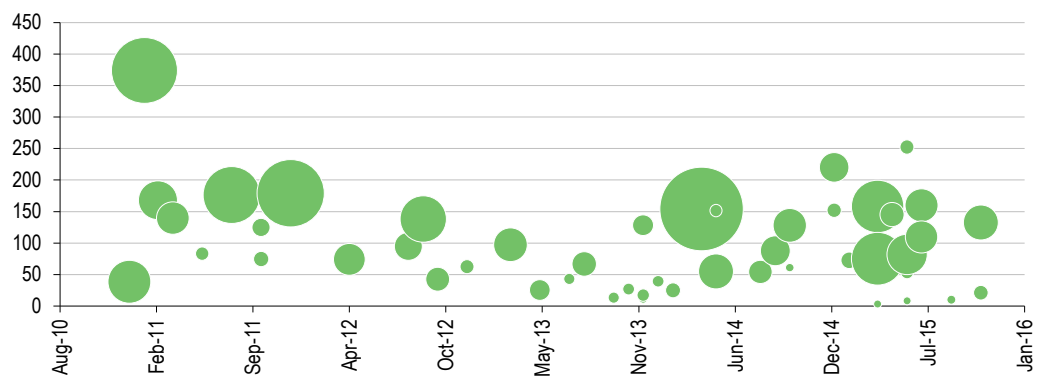


Source: Edison Investment Research

Another way of looking at how gold M&A valuations evolved over time is to consider the size of the transactions and the implied valuation metric such as the EV/Resource multiple. Exhibits 15 and 16 show that 2011, the year of record gold prices, saw a number of high profile M&A deals, which included the acquisition of Fronteer Gold by Newmont (EV of US\$2.2bn, implied EV/Resource of US\$374/oz), Eldorado Gold’s acquisition of European Goldfields (US\$2.3bn, US\$179/oz) and the acquisition of Northgate by AuRico Gold (US\$1.7bn, US\$176/oz). These transactions characterised by elevated resource-based valuations pertained to the relatively large scale (Fronteer Gold) and advanced stage of the acquired assets (European Goldfields and Northgate). However, as the gold price started to fall and the market sentiment began to deteriorate, the gold sector experienced a visible slowdown in M&A activity in 2012-13, with a reduced number of completed transactions, smaller deal values and depressed resource-based valuations.

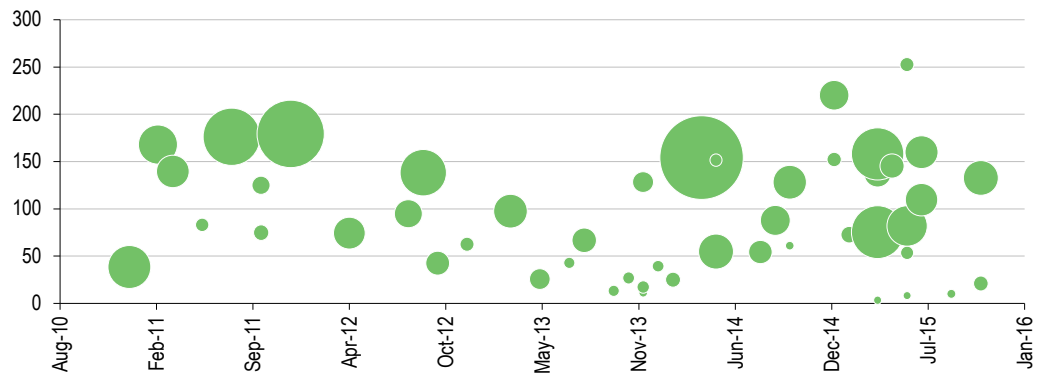
At the same time, in contrast to the overall mining industry situation, H214 and H115 have seen a revival in gold M&A activity, and are characterised by the increased number and size of transactions. The resource-based valuation multiples have also expanded, approaching those achieved at the top of the gold cycle. Thus, excluding the acquisition of Fronteer Gold by Newmont announced in early 2011, which clearly looks like an outlier, with an estimated EV/Resource of US\$374/oz, the resource-based valuations demonstrated in H214 and 2015 would be broadly in line with those seen in 2011 (Exhibit 15). Importantly, this was despite the prevailing cautious industry outlook against the backdrop of a falling gold price. We mainly attribute this rebound in M&A activity to the impact that the depreciation of commodity currencies, C\$ and A\$ in particular, had on gold projects’ economics and the gold price.

**Exhibit 15: EV/Resource (US\$/oz) over time and the size of transactions (US\$m)**



Source: Company data, Edison Investment Research

**Exhibit 16: EV/Resource (US\$/oz) excluding the Newmont/Fronteer Gold deal**

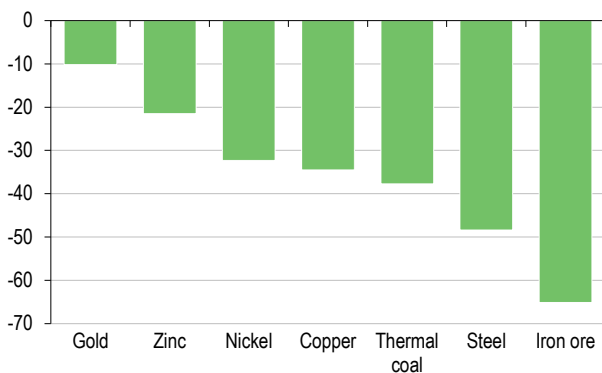


Source: Company data, Edison Investment Research

### Forex had a pronounced impact on gold M&A activity in H115

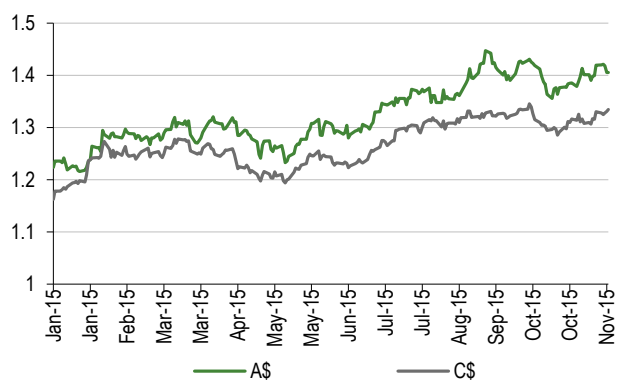
We believe that forex has been one of the main drivers behind the rebound in gold sector M&A in late 2014 and especially in H115. A sharp depreciation of the commodity currencies against US\$ had a pronounced positive impact on gold projects' economics, either through costs (for foreign projects and companies reporting in US\$), or top line (for the local companies/projects operating in A\$/C\$ currencies). The companies with stronger balance sheets took advantage of falling equity valuations and generally gloomy mining industry sentiment to take over attractively positioned gold assets. We note that despite falling 43% from its 2011 historic peak in US\$ terms, the gold price has only dropped 14% and 23% in A\$ and C\$ terms respectively. In general, weakening supply-demand fundamentals for the majority of industrial commodities put pressure on commodity prices, leading to the depreciation of the commodity currencies, Australian and Canadian dollars in particular. Supported by the improving economic growth profile in the US and increased demand for the US\$-denominated financial assets, the stronger US\$ has also contributed to the decline in commodity prices. We note that the gold price has outperformed the majority of industrial commodities in 2014/15 in both US\$ and local currency terms. The gold companies have therefore benefited the most from the depreciation of the commodity currencies.

**Exhibit 17: 2014/15 commodity price performance, %**



Source: Bloomberg

**Exhibit 18: A\$ and C\$ vs US\$ performance**

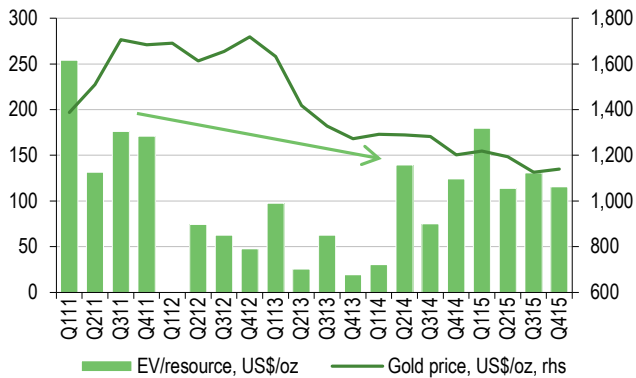


Source: Bloomberg

Against this backdrop, we estimate that resource-based valuations of the most representative gold M&A transactions approached those achieved in 2011 in US\$ terms and even slightly exceeded those when compared in local (A\$/C\$/US\$) currency terms. Thus, based on our estimates, the implied weighted average EV/Resource multiple reached US\$135/oz in 2015 (based on 16 transactions announced so far), compared to US\$144/oz in 2011 (nine deals excluding Newmont's acquisition of Fronteer Gold). In local currency terms, the combined weighted average multiple was

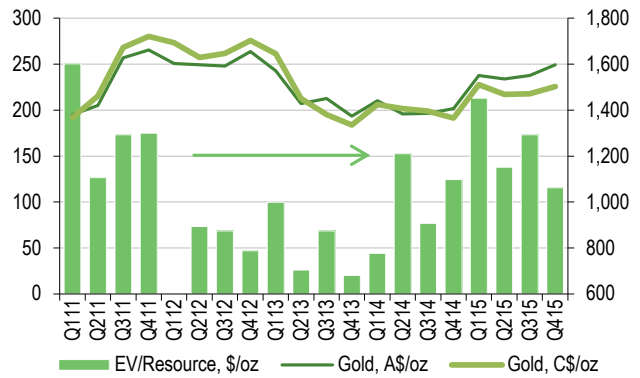
A\$/C\$/US\$160/oz in 2015 compared to A\$/C\$/US\$142/oz in 2011 (see Exhibit 16 for details). In other words, we estimate that in 2015 acquirers paid an average premium of A\$/C\$/US\$25/oz in local currency compared to the US\$-based valuations versus a A\$/C\$/US\$2/oz discount in 2011 (Exhibit 22).

**Exhibit 19: EV/Resource vs gold in US\$ terms**



Source: Company data, Bloomberg, Edison Investment Research

**Exhibit 20: EV/Resource vs gold in local currencies**



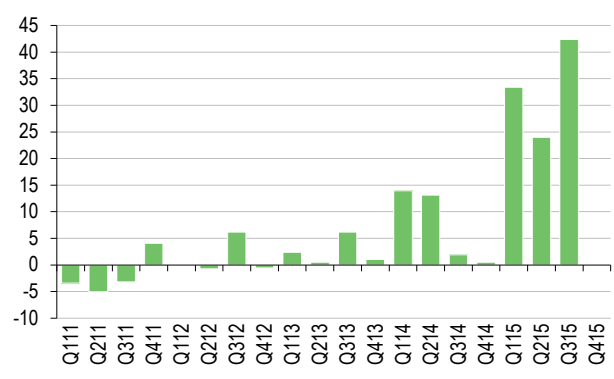
Source: Company data, Bloomberg, Edison Investment Research

**Exhibit 21: Gold price performance in US\$/A\$/C\$**



Source: Bloomberg

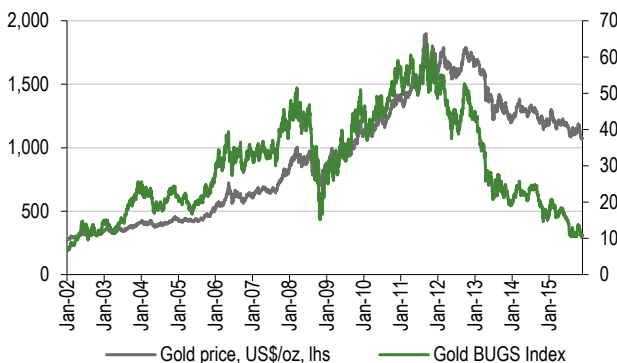
**Exhibit 22: Currency impact on EV/Resource, \$/oz**



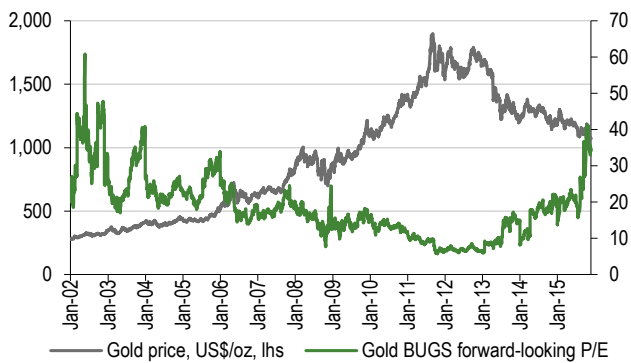
Source: Edison Investment Research

### Equities underperformed gold by a wide margin

To put the gold sector's valuation dynamics into an equity market perspective, we consider the performance of the Gold BUGS Index (equally-weighted index of major unhedged gold producers) versus the gold price and the index's forward-looking P/E. It is clear from Exhibit 23 that despite performing broadly in line with the gold price during the upcycle of 2009-11, gold equities decoupled from gold once its price started to fall in 2011. As a result, equities underperformed the commodity by a wide margin in 2012-15. At the same time, the forward-looking index P/E bottomed out at 6x in 2011, and has since expanded to more normalised levels of 10-20x against the backdrop of a falling gold price. At the same time, the more recent jump in the P/E valuation (see Exhibit 24) is likely to have been driven by the downward adjustment to consensus gold price expectations, and hence companies' earnings, while the index itself continued to trend down.

**Exhibit 23: Gold BUGS Index vs gold price**


Source: Bloomberg

**Exhibit 24: Gold BUGS Index P/E vs gold price**


Source: Bloomberg

## The rationale behind gold sector M&A transactions

While valuation multiples have recently approached those seen at the peak of the gold price cycle, it appears that the rationale behind the recent M&A transactions was somewhat different compared to previous years. Given the cautious industry outlook and the lack of funding, companies have recently been paying more attention to the quality of the assets and the level of the project advancement. As such, we have seen fewer transactions concerning early-stage exploration assets, with acquirers putting more emphasis on the producing assets or advanced exploration and development-stage projects with low capital intensity and operating costs. In our opinion, 2011 saw a larger number of high profile M&A transactions, both project acquisitions and company mergers, involving sizeable producing assets on the one hand, and large-scale but relatively early-stage exploration projects on the other. We believe that the logic behind the current wave of gold M&A is to take advantage of depressed equity valuations to either better position the company in the down-cycle through the acquisition of low-cost assets, to move the company up the value chain through the acquisition of producing assets, to realise some extra value through synergies, or to simply replenish mineral reserves/resources and increase the resource base.

- Companies with stronger balance sheets acquiring advanced exploration assets with low capital intensity and operating costs.** In an environment of depressed commodity prices, projects with stronger economics attract the main market attention as they increase cost competitiveness, potentially allowing acquirers to weather the down leg of the commodity price cycle. As such, we have recently seen an increased number of M&A transactions involving the advanced development or exploration-stage projects with completed definition studies, suggesting these projects would be placed at the bottom of the cost curve, have a relatively low development capital requirement and short delivery time. Very often such projects are also relatively small, which reduces the upfront capital requirement. Among such deals we would highlight is the acquisition of Newstrike Capital by Timmins Gold, with the latter taking over the Ana Paula gold project in Mexico. According to the PEA, the project is expected to produce some 115koz of gold (239koz of silver) per annum at a net cash cost of US\$485/oz and has a capital intensity of US\$1,413/oz. Another example is an acquisition of Papillon Resources by B2Gold. At the time of the transaction in October 2014, Papillon's Fekola gold project in Mali was at the construction stage. The project was expected to produce some 275koz of gold per annum at a total cash cost of US\$652/oz and had a capital intensity of US\$1,674/oz. Among the more recent transactions, we note the acquisition of Romarco by OceanaGold (July 2015). Romarco's Haile gold project in the US is currently under construction and is expected to produce some 148koz of gold (plus 185koz of silver) per annum at an all-in sustaining cash

cost of c US\$814/oz (net cash cost of US\$477/koz). The project has an estimated capital intensity of c US\$2,250/oz of annual gold production (excluding silver credits).

- **Majors divesting producing assets to optimise project portfolios and deleverage.** Another considerable category of M&A transactions concerns the advanced-stage projects, most often in production, that are being divested by the major gold producers in an attempt to reduce balance sheet gearing and optimise asset portfolios. The most notable transactions in this category include Barrick Gold's sale of the Cowal gold mine to Evolution Mining in July 2015, Newmont's sale of the Waihi gold mine to OceanaGold in June 2015 as well as the sale of the Porgera JV by Barrick Gold to Zijin Mining in May 2015. Both Barrick and Newmont appear to have been the most active sellers. This is probably no big surprise, given Barrick's net-debt position of US\$9.2bn compared to the market cap of US\$8.8bn. Newmont Mining has net debt of US\$3.4bn vs a market cap of US\$9.3bn.
- **Companies extracting synergies or increasing ownership in the projects.** Depressed market valuations sometimes offer attractive opportunities for the companies to extract some extra value through synergies or increase the ownership of projects. Synergies often arise from the proximity of two assets and the potential to jointly use the existing infrastructure, from some sort of asset similarities and management's expertise in developing similar assets. Among such transactions we would highlight the acquisition of the Kanowna Belle project and East Kundana JV by Northern Star from Barrick Gold in January 2014, as well as Argonaut's acquisition of the San Augustin project from Silver Standard in November 2013. In terms of the acquisition of the additional interest in the projects, we note Fresnillo's purchase of the remaining 44% interest in the Penmont JV from Newmont Mining in September 2014. More recently, Barrick Gold sold a 50% interest in the Round Mountain mine to Kinross as part of the divestment of its Nevada gold assets announced in November 2015.
- **Finally, we would highlight geographical diversification as well as the replenishment of mineral reserves as some other common reasons behind M&A.**

**Exhibit 25: Gold sector M&A database**

Announced	Type	Status	Acquirer	Acquirer country	Target	Target country	Seller	Deal value, US\$m	Main Assets	Asset country	Ownership, %	Status	EV/Resource, US\$/oz	EV/Reserves, US\$/oz	EV/Prod., US\$/oz
Nov-15	Acquisition	Open	Waterton Precious Metals Fund	US	Nevada assets	US	Barrick Gold	110					21	-	3,333
									Spring Valley project	US	70	Exploration			
									Ruby Hill mine	US	100	Production			
Nov-15	Acquisition	Open	Kinross	US	Nevada assets	US	Barrick Gold	610					133	297	1,877
									Round Mountain mine	US	50	Production			
									Bald Mountain mine	US	100	Production			
Sep-15	Acquisition	Open	Evolution Mining	Australia	Phoenix Gold	Australia	-	40	Castle Hill project	Australia	100	FS, project finance	10	34	-
Jul-15	Acquisition	Closed	OceanaGold	Australia	Romarco	Canada	-	531	Haile gold mine	US	100	FS (2014), Construction	110	255	-
Jul-15	Acquisition	Closed	Evolution Mining	Australia	Cowal gold mine	Australia	Barrick Gold	550	Cowal gold mine	Australia	100	Production	160	353	2,245
Jun-15	Acquisition	Closed	OceanaGold	Australia	Waihi gold mine	NZ	Newmont	101	Waihi gold mine	New Zealand	100	Production	253	281	765
Jun-15	Acquisition	Closed	Newmont	US	Cripple Creek & Victor	US	AngloGold	820	CC&V	US	100	Production	82	207	2,343
Jun-15	Acquisition	Closed	Oban Mining	Canada	Eagle Hill, Ryan Gold, Corona Gold, Temex Resources	Canada	-	86	Windfall Project	Canada	100	Exploration	53	-	-
Jun-15	Acquisition	Open	Zijin Mining	China	Phoenix Gold	Australia	-	32	Castle Hill project	Australia	100	FS, project finance	8	28	-
May-15	Acquisition	Closed	Zijin Mining	China	Porgera JV	Canada	Barrick Gold	298	Porgera JV	Canada	48	Production	145	199	1,209
Apr-15	Merger	Closed	Alamos Gold	Canada	AuRico Gold	Canada	-	1,406					75	230	3,856
									Young-Davidson	Canada	100	Production			
									Mulatos	Mexico	100	Production			
									El Chanate	Mexico	100	Production			
									Agi Dagi	Turkey	100	PFS (2012), Permitting			
									Esperanza	Mexico	100	PEA (2011), Permitting			
									Kirazli	Turkey	100	PFS (2012), Permitting			
									Linn Lake JV	Canada	25	Feasibility			
									Quartz Mountain	US	100	Advanced exploration			
									Camyurt	Turkey	100	Exploration			
Apr-15	Acquisition	Closed	Tahoe Resources	Canada	Rio Alto Mining	Canada	-	1,381					158	467	6,214
									La Arena	Peru	100	Production			



Announced	Type	Status	Acquirer	Acquirer country	Target	Target country	Seller	Deal value, US\$m	Main Assets	Asset country	Ownership, %	Status	EV/Resource, US\$/oz	EV/Reserves, US\$/oz	EV/Prod., US\$/oz
									Shahuindo	Peru	100	Exploration			
Apr-15	Acquisition	Closed	NovaCopper	Canada	Sunward Resources	Canada	-	34	Titiribi	Colombia	100	Exploration	3	-	-
Apr-15	Acquisition	Open	Evolution Mining	Australia	Australian assets	Australia	La Mancha Group	362					137	464	2,497
									Frog's Leg UG gold mine	Australia	100	Production			
									White Foil OP gold mine	Australia	100	Production			
									Mungari CIL plant	Australia	100	Production			
Feb-15	Merger	Closed	Timmins Gold	Canada	Newstrike Capital	Canada	-	140	Ana Paula	Mexico	100	PEA (2014)	73	-	-
Jan-15	Acquisition	Closed	Goldcorp	US	Probe Mines	Canada	-	440	Borden Gold project	Canada	100	Exploration	220	-	-
Jan-15	Acquisition	Closed	Coeur Mining	US	-	US	Goldcorp	105	Wharf mine	US	100	Production	152	188	1,235
Oct-14	Acquisition	Closed	B2Gold	Canada	Papillon Resources	Australia	-	570	Fekola	Mali	90	FS (2015), Construction	128	170	-
Oct-14	Acquisition	Closed	Doray Minerals	Australia	Mutiny Gold	Australia	-	36	Deflector	Australia	100	Development	61	112	-
Sep-14	Acquisition	Closed	Fresnillo	Mexico	-	Mexico	Newmont	450	Penmont JV	Mexico	44		88	221	2,431
									Herradura	Mexico	44	Production			
									Noche Buena	Mexico	44	Production			
									Soledad-Dipolos	Mexico	44	Production?			
									Mega Centauro	Mexico	44	Advanced exploration			
									Centauro Deep	Mexico	44	Advanced exploration			
Aug-14	Merger	Closed	Rio Alto Mining	Canada	Sulliden Gold	Canada	-	275	Shahuindo	Peru	100	FS(2012), Development	54	266	-
May-14	Acquisition	Closed	Polymetal	Russia	Kyzyl gold project	Kazakhstan	Sumeru Gold	619					55	92	-
									Bakyrchik	Kazakhstan	100	FS (2013)			-
									Bolshevik	Kazakhstan	100	Production 1985-2014			-
May-14	Acquisition	Closed	Northern Star	Australia	-	Australia	Newmont	77	Jundee Mine	Australia	100	Production	151	187	275
Apr-14	Acquisition	Closed	Yamana/Agnico Eagle	Canada	Osisko Mining	Canada	-	3,545					154	410	6,621
									Malartic	Canada	100	Production			
									Kirkland Lake	Canada	100	PEA, Exploration			
									Hammond Reef	Canada	100	FS(2013), Exploration			
Feb-14	Acquisition	Closed	QKR	-	Navachab Mine	Namibia	AngloGold	110	Navachab	Namibia	100	Production	25	52	1,793
Jan-14	Acquisition	Closed	Northern Star	Australia	-	Australia	Barrick Gold	66	Kanowna Belle/EKJV				39	107	350
									Kanowna Belle	Australia	100	Production			
									East Kundana JV	Australia	50.5	Production			
									Pegasus	Australia	25.755	Exploration,			

Announced	Type	Status	Acquirer	Acquirer country	Target	Target country	Seller	Deal value, US\$m	Main Assets	Asset country	Ownership, %	Status	EV/Resource, US\$/oz	EV/Reserves, US\$/oz	EV/Prod., US\$/oz
												FS-stage			
Dec-13	Acquisition	Closed	Asanko Gold	Canada	PMI	Canada	-	77	Obotan gold project	Ghana	100	DFS (2012)	17	32	-
Dec-13	Acquisition	Closed	Centamin	Egypt	Ampella Mining	Australia	-	37	Batie West/Konkera	Burkina Faso	100	Exploration	11	-	-
Dec-13	Acquisition	Closed	Primero Mining	Canada	Brigus Gold	Canada	-	221					128	289	2,757
									Black Fox	Canada	100	Production			
									Grey Fox	Canada	100	Advanced exploration			
Dec-13	Acquisition	Closed	Northern Star	Australia	-	Australia	Barrick Gold	22	Plutonic Mine	Australia	100	Production	13	109	197
Nov-13	Acquisition	Closed	Argonaut Gold	Canada	-	Mexico	Silver Standard	71	San Augustin	Mexico	100	Exploration	27	-	-
Oct-13	Acquisition	Closed	B2Gold	Canada	Volta Resources	Canada	-	63	Kiaka	Burkina Faso	81	PFS (2012)	13	-	-
Aug-13	Acquisition	Closed	Gold Fields	South Africa	-	Australia	Barrick Gold	300	Yilgam South assets	Australia	100	Production	67	115	664
Jul-13	Acquisition	Closed	Alamos Gold	Canada	Esperanza	Canada	-	63	Esperanza gold project	Mexico	100	PEA (2011)	43	-	-
May-13	Acquisition	Closed	New Gold	Canada	Rainy River Resources	Canada	-	216	Rainy River gold project	Canada	100	FS (2013)	26	53	-
Mar-13	Acquisition	Closed	Hecla	US	Aurizon Mines	Canada	-	575					97	192	4,202
									Casa Berardi gold mine	Canada	100	Production			
									Heva-Hosco gold project	Canada	100	Exploration, FS (2012)			
Dec-12	Acquisition	Closed	Primero Mining	Canada	Cerro Resources	Australia	-	99	Cerro Del Galo	Mexico	69	FS (2012)	62	144	-
Oct-12	Acquisition	Closed	Argonaut Gold	Canada	Prodigy Gold	Canada	-	281	Magino gold project	Canada	100	Exploration	42	-	-
Sep-12	Acquisition	Closed	B2Gold	Canada	CGA Mining	Philippines	-	1,092	Masbate gold mine	Philippines	100	Production	138	341	5,458
Aug-12	Acquisition	Closed	Endeavour	Canada	Avion Gold	Canada	-	393					95	594	5,386
									Tabakoto gold mine	Mali	80	Production			
									Houde	Burkina Faso	90	Exploration			
									Kofi	Mali	75	Exploration			
Apr-12	Acquisition	Closed	IAMGOLD	Canada	Trelawney Mining	Canada	-	510	Cote Lake deposit	Canada	100	Exploration	74	-	-
Dec-11	Acquisition	Closed	Eldorado Gold	Canada	European Goldfields	Greece	-	2,295					179	250	-
									Skouries	Greece	95	FS, development			
									Olympias	Greece	95	Development			
									Stratoni	Greece	95	Production			
									Certej	Romania	80	DFS, development			
Oct-11	Acquisition	Closed	B2Gold	Canada	Auryx Gold	Canada	-	166	Otjikoto gold project	Namibia	92	Exploration, PEA (2011)	125	-	-
Oct-11	Acquisition	Closed	New Gold	Canada	Silver Quest	Canada	-	119					75	-	-

Announced	Type	Status	Acquirer	Acquirer country	Target	Target country	Seller	Deal value, US\$m	Main Assets	Asset country	Ownership, %	Status	EV/Resource, US\$/oz	EV/Reserves, US\$/oz	EV/Prod., US\$/oz
									Davidson claims	Canada	25	Exploration			
									Capoose	Canada	100	Exploration			
Aug-11	Acquisition	Closed	AuRico Gold	Canada	Northgate Minerals	Canada	-	1,653					176	465	8,843
									Young-Davidson	Canada	100	Development, FS (2010)			
									Fosterville mine	Australia	100	Production			
									Stawell mine	Australia	100	Production			
									Kemess UG	Canada	100	PEA (2011)			
Jun-11	Acquisition	Closed	Premier Gold	Canada	Goldstone Resources	Canada	-	90	Hardrock project	Canada	30	Exploration	83		
Apr-11	Acquisition	Closed	New Gold	Canada	Richfield Ventures	Canada	-	534	Blackwater project	Canada		Exploration	140		
									Dave and Jarrit claims	Canada	100	Exploration			
									Davidson claims	Canada	75	Exploration			
Mar-11	Merger	Closed	White Tiger	Canada	Century Mining	Canada	-	770					168	598	8,454
									Lamaque Gold project	Canada	100	Production			
									San Juan mine	Peru	82.6	Production			
Feb-11	Acquisition	Closed	Newmont	US	Fronteer Gold	Canada	-	2,207					374		
									Long Canyon	US	100	Advanced exploration			
									Northumberland	US	100	Exploration			
									Sandman	US	100	Exploration			
Jan-11	Acquisition	Closed	Taung Gold	China	Taung Gold	South Africa	-	925					39		
									Evander	SA	100	Exploration			
									Jeanette	SA	100	Exploration			

Source: Company data, Edison Investment Research

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