



Mining M&A Newsletter

Second half of 2017



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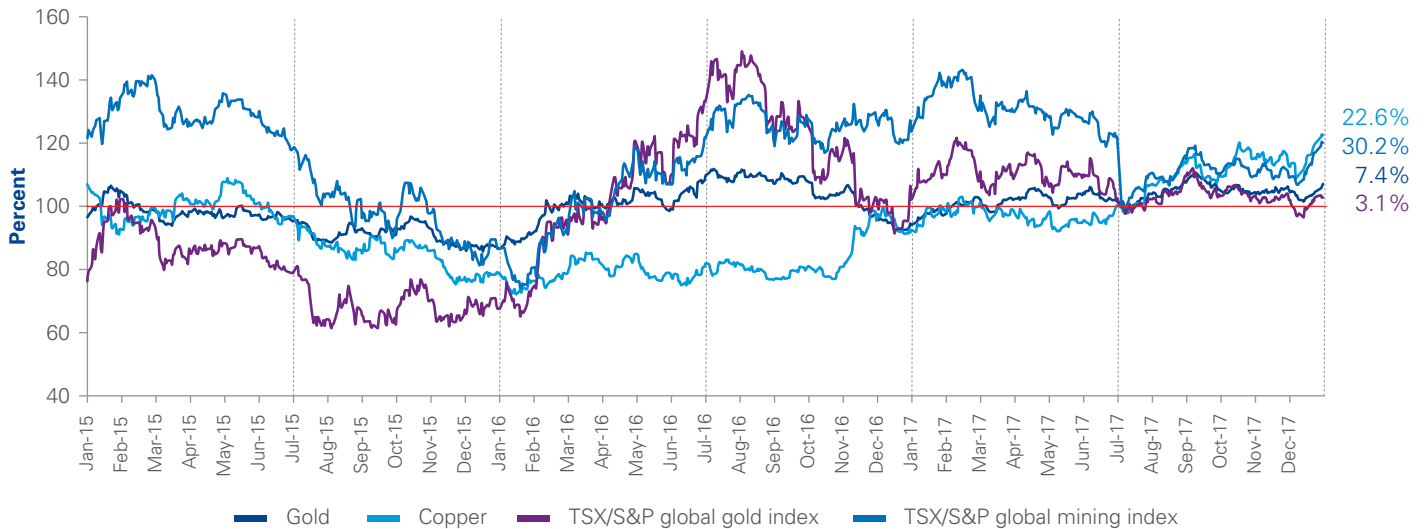
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Global business conditions improve for the mining sector

The second half of 2017 showed indications of improving business conditions for the mining sector, as metals prices and mining equities were on the rise. However, total global mining deal value actually shrank half-over-half from \$15.6 billion to \$14.1 billion – a drop of approximately 9.6 percent – while total deal volume remained essentially flat.

In our last newsletter, we reported that global economic growth had passed 3 percent in 2016, and increased in 2017 to a projected 3.5 percent.¹ For 2018, Goldman Sachs is forecasting global growth further increasing to 4 percent. China, long considered the world’s major market for metals, is in much more stable economic shape than years past, and has reappeared this half as a major player in global mining M&A. Copper prices are up 22.6 percent, and the gold price is up 7.4 percent despite general economic strength. The Global Gold Index rose 3.1 percent, and the Global Mining Index is up sharply at 30.2 percent.²

Equity indices vs. gold and copper spot price



Source: Capital IQ

* All prices in US dollars unless otherwise stated

¹ International Monetary Fund, 2018, <https://www.imf.org/en/Publications/WEO/Issues/2017/07/07/world-economic-outlook-update-july-2017>

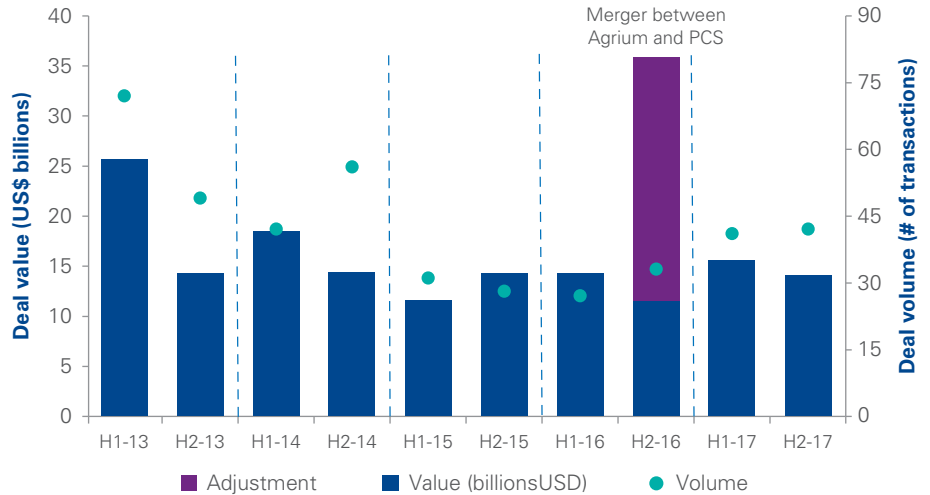
² Capital IQ

In the face of all this good news in the industry, why are we not seeing a similar increase in mining M&A activity? After spending several years addressing their balance sheets, rightsizing their asset portfolios and winning back investors, mining companies appear to be taking a cautious approach when it comes to major transactions. However, the time spent correcting their balance sheets appears to have replenished cash accounts of mining companies, providing some flexibility to be active with strategic acquisitions. Mining companies have also put a strong focus on lowering unit costs organically and through M&A in order to maintain a competitive market position. It appears that these efforts remain, as companies regain health and look to replenish reserves, diversify their portfolio, and engage with exploration stage assets in an effort to identify future opportunities.³

Coal was the top commodity in H2 2017 by deal value, capturing 35 percent of total deal value mainly by virtue of the largest transaction in the half, and a total of three coal deals in the top ten. At 29 percent of deal value, gold was the second most prominent commodity, followed by copper at 17 percent.

After near absence from M&A activity in the first half of 2017, China was both the top acquirer and top target in the second half. Canada was very close behind China as acquirer.

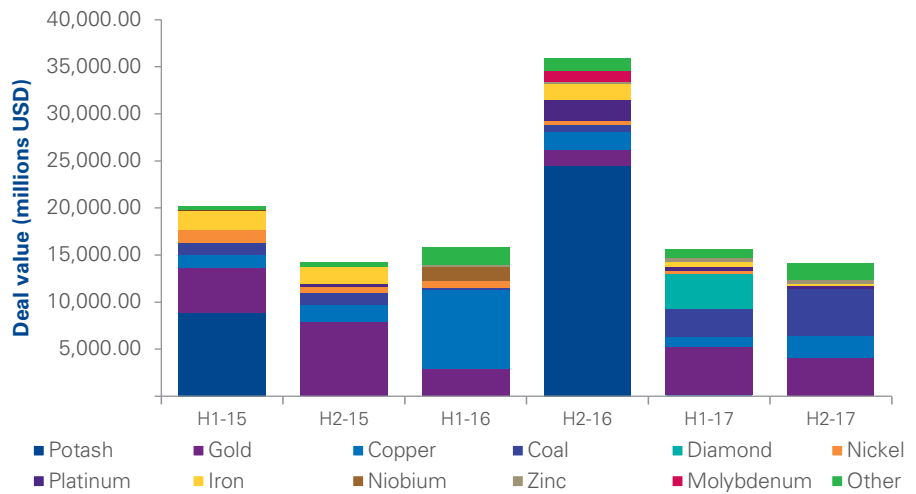
Global mining M&A deal value and volume trends



Source: Thomson, Capital IQ and KPMG in Canada analysis

* Represents transactions above \$50 million
 * Only includes announced transactions; excludes capital raising and share buy-backs

Global mining M&A deal value by commodity



Source: Thomson, Capital IQ and KPMG in Canada analysis

* Represents transactions above US \$50 million
 * Only includes announced transactions; excludes capital raising and share buy-backs

³ KPMG proprietary market research and analysis

Market trends

Mining M&A activity is affected by considerations of geographic location and development stage of the asset. We have analyzed market trends by cross-referencing deal value and volume with the location and development stage of the acquired assets.

For the purposes of this analysis, transactions by location considers all transactions with a deal value greater than \$50 million whereas transactions by asset stage uses a lower deal value threshold of \$5 million or greater in order to more accurately capture the different transaction values across the stages of the asset lifecycle (i.e. exploration, development, production).

H2 2017 highlights:

- Although global deal volume was essentially flat half-over-half, it has not gone down now for two years.
- Compared to H1 2017, North America and Asia greatly expanded their activity (both in deal value and volume), while Europe, South America, Australasia and Africa had lower volume.
- The average deal size (\$330 million) continues to shrink, paring down to the lowest it has been in three years. Only two transactions in the top ten this half exceeded \$1 billion.



Compared to the first half of 2017 which saw higher than usual deal volume coming from Australasia and Europe, H2 restored the historical norms that have repeated for several years in terms

of primary location for deal volume. The number of Americas and Asia based deals increased over H1 2017, to return to volume levels more consistent with prior years. Africa also remained active

in M&A as companies continue to pursue attractive investment returns in the lower cost environment offered in many nations.

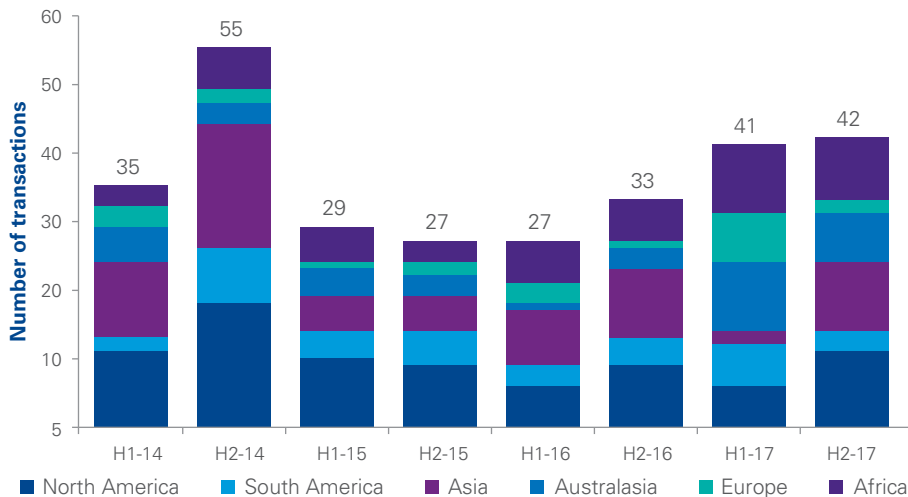
Overall, H2 deal volume by location appears proportionally more similar to that of 2015 and 2016.

There were 122 global transactions over \$5 million in H2 2017 compared to 111 in the first half. That is the highest number recorded in the past four years, and that level has steadily risen now for five consecutive quarters.

The focus of investment stage in H2 2017 was on development assets, similar to H1 2017. In the years before 2017, exploration assets were clearly favoured. Now, for two consecutive halves, the proportion of deals among exploration, development and production assets is much more even.

It appears that smaller deals is an emerging trend in this part of the cycle as companies pursue strategic opportunities by re-tooling their exploration and seeking diversity in their portfolios. This trend seems to be a result of the type of M&A present in the industry, in the form of earn-ins or step acquisitions of exploration companies. To illustrate, this half we witnessed Investor Group's acquisition of Huaibei Mining Ltd, and First Quantum's investment in the Northern Dynasty Mineral's Pebble project.

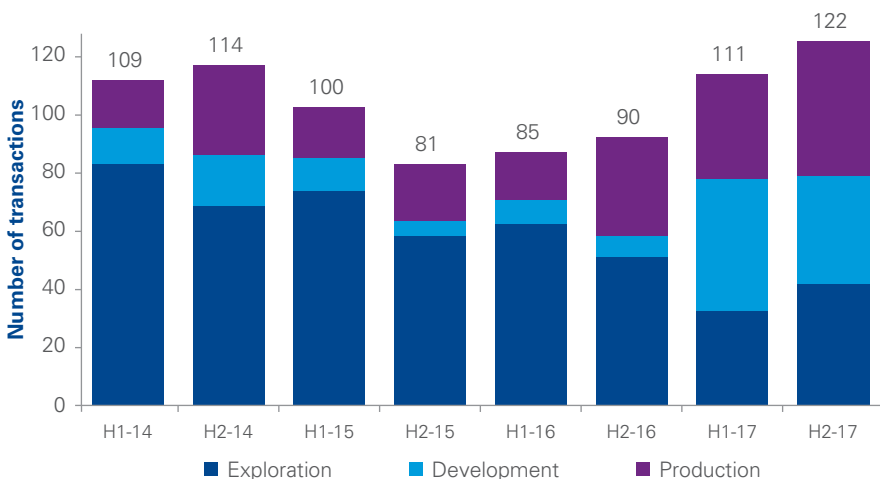
Deal volume by location (Deals greater than 50M USD)



Source: Thomson, Capital IQ and KPMG in Canada analysis

* Represents transactions above US \$50 million
 * Only includes announced transactions; excludes capital raising and share buy-backs

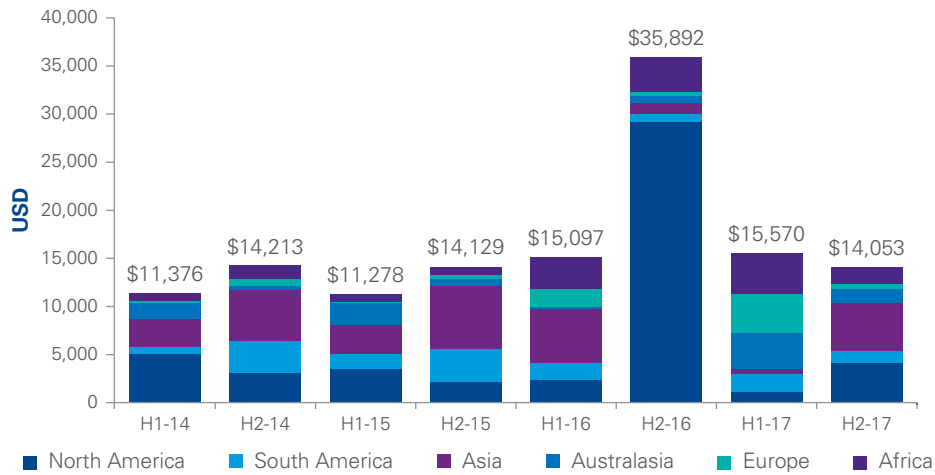
Deal volume by asset stage (Deals greater than 5M USD)



Source: Thomson, Capital IQ and KPMG in Canada analysis

* Represents transactions above US \$5 million
 * Only includes announced transactions; excludes capital raising and share buy-backs

Deal value by location (Deals greater than 50M USD)



Source: Thomson, Capital IQ and KPMG in Canada analysis

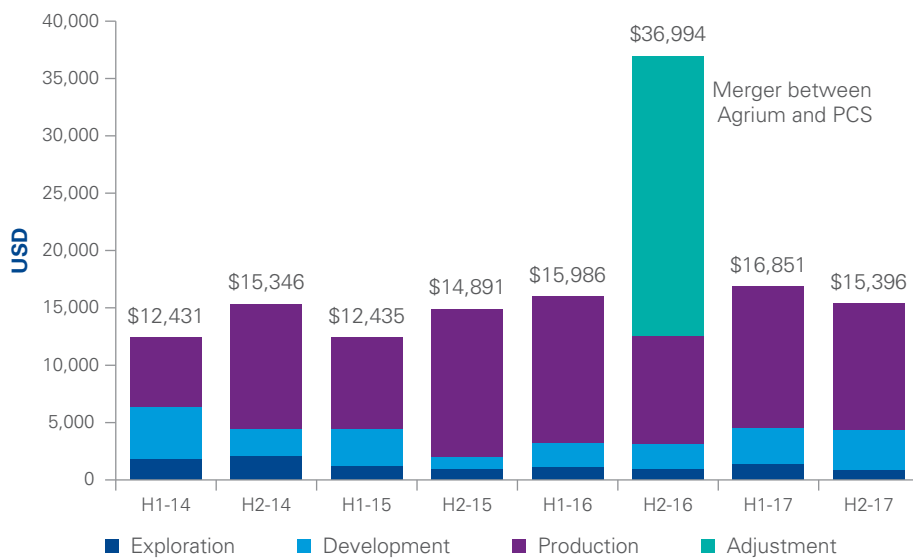
* Represents transactions above US \$50 million
 * Only includes announced transactions; excludes capital raising and share buy-backs

Looking at deal value by location and asset stage for transactions over \$5 million, the trend conforms more or less to a well-established pattern. As with deal volume, the value of Americas and Asia based deals increased over H1 2017, and return to levels more consistent with prior years. This included the two largest deals of the half, which resided in China and North America, respectively.

While Africa remained active in deal volume, the proportional deal value of these transactions has declined. This may be the result of risks that remain in mineral development as government intervention, regulation, and civil tension persists.

The vast majority of deal value is allocated to producing assets while exploration and development assets together often capture only a quarter of overall deal value or less. This half, exploration deals were even slightly lower half-over-half. It is worth noting that all but two of the top ten transactions in H2 2017 were for producing assets.

Deal value by asset stage (Deals greater than 5M USD)



Source: Thomson, Capital IQ and KPMG in Canada analysis

* Represents transactions above US \$50 million
 * Only includes announced transactions; excludes capital raising and share buy-backs

Market activity – H2 2017 top 10 deals

In the second half of 2017, the top ten global transactions are notable for two reasons: first, the presence of coal in three of the top ten including the largest; and second, the returning presence of China to M&A activity.

Overall, the commodity price environment has been less volatile, however still below historical highs. This provides companies with a consistent operating environment to transact in. The market activity seen this half reflects that companies are taking a strategic approach to their future growth within the current market constraints.⁴

H2 2017 Transactions – Top 10 Global Deals (millions USD)

Announced date	Target/Issuer	Buyers/Investors	Consideration	Commodity
Nov 28	Huaibei Mining Co Ltd	Investor Group	\$3,341	Coal
Dec 18	Pebble LP	First Quantum Minerals Ltd	\$1,500*	Copper
Sep 11	Richmont Mines Inc.	Alamos Gold Inc.	\$764	Gold
Sep 25	PT Kideco Jaya Agung	Indika Energy Tbk PT	\$678	Coal
Aug 31	Korea Panama Mining Corp	First Quantum Minerals Ltd	\$635	Copper
Jul 31	Orion Mine Finance	Osisko Gold Royalties Ltd	\$861	Gold
Dec 22	Curragh Coal Mine	Coronado Coal LLC	\$539	Coal
Oct 03	Volcan Compañía Minera S.A.A.	Glencore Plc	\$531	Zinc
Aug 11	United Company RUSAL Plc	Zonoville Investments Limited	\$504	Aluminum
Sep 22	Lynx Resources Ltd	Central Asia Metals Plc	\$405	Zinc

*This investment included \$150 million committed investment, with the options to invest an additional \$1,350 million in the future.

Source: Thomson, Capital IQ and KPMG in Canada analysis

A big half for coal

Just as in the first half of 2017, the biggest deal of H2 went to coal. This transaction represents the largest global deal since PotashCorp combined with Agrium in the second half of 2016. China's state-owned explosives maker Anhui Leimingkehua Co. is set to acquire coal miner Huaibei Mining Co Ltd (Huaikuang Co Ltd) for \$3.34 billion raised in a private placement.⁵ Anhui Leimingkehua's major shareholder is local government-run Huaibei Mining

Group, and the acquisition will help Huaibei list its core mining-related assets on the Shanghai Stock Exchange. In a statement, Leimingkehua said, "The deal is part of the government's push to reform the state-owned sector and boost the securitization of state-owned assets." Beijing is making moves to transform its inefficient state-owned sector into public companies capable of competing globally.

In another coal deal, Indonesian integrated energy company PT Indika Energy has become a majority shareholder in PT Kideco Jaya Agung. Kideco is the third-largest coal producer in Indonesia with proven reserves of 422 million tons, and resources reaching 1.37 billion tons. Indika and a wholly owned subsidiary purchased 45 percent of Kideco shares for \$677.5 million, adding to the 46 percent stake Indika already

⁴ KPMG proprietary market research and analysis

⁵ Reuters, November 27, 2017, China state-backed explosives maker to buy affiliated coal miner for \$3.1 billion <https://www.reuters.com/article/us-huaikuang-m-a-anhui-leimingkehua/china-state-backed-explosives-maker-to-buy-affiliated-coal-miner-for-3-1-billion-idUSKBN1DR1GV>

owns. With control of Kideco, Indika will further enhance synergies within its integrated business portfolio of energy resources, services, and infrastructure.⁶

Rounding out the coal transactions, one of the world's largest metallurgical coal mines has been sold to new owners. The Curragh coal mine in Queensland, Australia has been sold by its owner Wesfarmers to U.S.-based Coronado Coal Group for \$539 million. Coronado Coal Group is a leading US producer of metallurgical coal with three mining complexes in West Virginia and Virginia. Although Wesfarmers is currently exiting the coal business, the company locked in a royalty arrangement for the next two years as part of the agreement.⁷

Gold deals are all-Canadian

Canadian companies expressed their interest in gold transactions with two in the half. In the larger, Alamos Gold paid \$763.8 million to acquire Richmond Mines in a friendly transaction. The deal was all stock. Richmond produces gold in Ontario and Québec, but has agreed to sell its Québec assets to a third company, Monarques, in exchange for shares. The combined Alamos/Richmont company will own 19.9 percent of Monarques.⁸

In the other gold deal, Osisko Gold Royalties purchased a precious metals portfolio of assets from Orion Mine Finance Group consisting of 74 royalties,

streams and precious metal offtakes. The total price was \$861 million of which \$504.8 million was paid in cash and the remaining through the issuance of 31 million shares. Osisko now holds a portfolio of over 130 royalties, streams and precious metal offtakes, covering gold, silver and diamonds from several high-quality mines in Canada and Chile.⁹

Copper picking up speed

Many investors have their eye on the copper price as it has been rising in recent months. Canada's First Quantum Minerals is paying \$150 million over four years for an option to buy a 50 percent stake in Alaska's Pebble copper-and-gold mine project. The project is currently owned by Northern Dynasty Minerals, which has been looking for a partner since Anglo American pulled out in 2013. If First Quantum exercises the option to buy, it will cost an additional \$1.35 billion. Pebble is widely acknowledged to be one of the outstanding unmined copper projects in the world.¹⁰

First Quantum appears as the buyer again in another copper development project, this time for its own project, the Cobre mine in Panama. The company is buying 10 percent ownership interest in its own subsidiary, Minera Panama, from South Korea-based LS-Nikko Copper. The price is \$635 million payable over a five-year period. First Quantum says that Cobre is 60 percent complete and on track to begin production next year.¹¹

Two transactions for zinc

Rarely involved in recent M&A activity, zinc was the object of two transactions this half. The larger of the two, and the fourth largest overall, involved Swiss mining giant Glencore making a bid for the shares of Volcan Compañía Minera, a Peruvian company. Glencore has existing Peruvian zinc operations, and has also been a shareholder of Volcan since 2004. Glencore has made a successful private offer to shareholders of Volcan that will raise its ownership stake from 7.68 percent to between 18.98 percent and 28.07 percent. The cost to Glencore is \$531 million.¹²

In the other zinc transaction, Kazakhstan-focused Central Asia Metals announced the purchase of Bermuda-based Lynx Resources Ltd in a \$402.1 million reverse-takeover. The sellers were Bermuda-based fund Orion Co-Investments III L.P. and Swiss PE firm Fusion Capital AG. The acquisition, funded by a mix of debt and cash, is expected to be accretive for both earnings and cash-flow-per-share in the first full year.¹³

Lone deal for aluminum

A solo aluminum transaction rounded out the top ten, as Zonoville Investments of Cyprus paid \$503.9 million to purchase seven percent of the share capital of United Company RUSAL, a Russian aluminum producer.¹⁴

⁶ Indika Energy, September 25 2017, News Release, <http://www.indikaenergy.co.id/wp-content/uploads/2017/09/Indika-Energy-Signs-Share-Purchase-Agreements.pdf>

⁷ The West Australian, December 21 2017, <https://thewest.com.au/business/mergers-and-acquisitions/wesfarmers-closer-to-coal-exit-with-curragh-sale-ng-b88698071z>

⁸ Globe and Mail, September 18 2017, <https://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/alamos-gold-to-acquire-richmont-mines-in-friendly-offer-worth-933-million/article36225176>

⁹ Market Wired, July 31 2017, <http://www.marketwired.com/press-release/osisko-completes-acquisition-of-orion-royalty-portfolio-tsx-or-2228321.htm>

¹⁰ Financial Post, December 18 2017, <http://business.financialpost.com/pmn/business-pmn/first-quantum-signs-option-deal-for-stake-in-northern-dynastys-pebble-project>

¹¹ Mining Weekly, September 1 2017, http://www.miningweekly.com/article/first-quantum-acquires-korean-smelters-stake-in-minera-panama-2017-09-01/rep_id:3650

¹² Glencore, October 3 2017, <http://www.glencore.com/media/news/p/glencore-to-acquire-voting-shares-of-volcan-compania-minera-s-a-a>

¹³ Reuters, September 22, 2017, <https://www.reuters.com/article/us-caml-m-a-lynx-resources/central-asia-metals-to-buy-lynx-resources-for-402-5-million-idUSKCN1BX0L2>

¹⁴ Reuters, August 11 2017, <https://af.reuters.com/article/metalsNews/idAFFWN1KW1FQ>



Q&A

Elif Lévesque, CPA, CGA, MBA, ICD.D
Chief Financial Officer and Vice President, Finance
Osisko Gold Royalties Ltd

About Osisko Gold Royalties Ltd

Osisko Gold Royalties Ltd is an intermediate precious metal royalty company focused on the Americas that commenced activities in June 2014. Following the Orion transaction, Osisko now holds a North American focused portfolio of over 130 royalties, streams and precious metal offtakes. Osisko's portfolio is anchored by five cornerstone assets, including a 5 percent NSR royalty on the Canadian Malartic, which is the largest gold mine in Canada. Osisko also owns a portfolio of publicly held resource companies, including a 15.5 percent interest in Osisko Mining Inc., a 12.7 percent interest in Falco Resources Ltd. and a 32.7 percent interest in Barkerville Gold Mines Ltd.

Elif Lévesque is the Chief Financial Officer and Vice President Finance of Osisko Gold Royalties Ltd since June 2014. Prior to this, Ms. Lévesque was Vice president and Controller of Osisko Mining Corporation and has contributed to the finance function at Osisko since 2008. Ms. Lévesque has 15 years of experience with leading Canadian intermediate gold producers (Cambior Inc. 2002–2006 and Iamgold Corporation 2006–2008). Ms. Lévesque is a director of TerraX Minerals Inc. and served on the Quebec Mineral Exploration Association's board of directors from 2015 to 2017. She has also recently completed the Directors Education Program (DEP), jointly developed by the Institute of Corporate Directors and the University of Toronto's Rotman School of Management. She is a member of the Ordre des Comptables Professionnels Agréés du Québec and holds an MBA from Clark University, Massachusetts, USA.

1. You've been in the mining industry since 2002 (with Cambior Inc, Iamgold Corp, and Osisko). The industry has gone through a lot of changes in the past 15 years. What do you think have been some of

the most significant changes in the industry, and how has the industry responded?

To start with, the changes in the pricing environment have had a key impact on the commodities sector. And while the mining industry in general is known for its cyclical price nature, gold prices tend to go through even longer cycles, which can last 15 to 20 years.

When I started working for the Montreal-based international mining company Cambior in 2002, it was at the beginning of what was to become a long bullish cycle for gold. At the time, gold prices were in the low US\$300 per ounce levels. It was hard for mining companies, which were struggling to get out of their hedge books and were registering losses as the gold prices were picking up. Then prices went as high as US\$1,000 per ounce by 2009 and over US\$1,800 per ounce in 2011, and mining companies were reporting record earnings every quarter and had tremendous access to capital. But this increase was inevitably followed by a correction in prices in 2013, before they slowly started picking up again in

2015. So, my experience in the mining industry started in a time of immense struggle where gold prices were low and mining companies had very tight control on costs and conservative approaches to exploration work. Within the decade the price of gold increased rapidly and we moved into a period of cost inflation and labour shortages as companies pushed for growth internally and through M&A. Then back into cost cuts while trying to increase efficiency through technology and innovation. This is an industry where producers have almost no impact on their selling prices, and can only influence costs and efficiency, which is highly dependent on the deposit itself.

Another significant change is that mining companies now face more challenges in developing projects. Companies have to evaluate the economic viability of lower grade, harder to mine deposits in riskier countries, or, as was the case with Osisko Mining Corporation, be in a lower risk country but be faced with challenges to relocate and re-build existing infrastructure in order to build an open pit gold mine next to a city.

That being said, one of the most significant benefits that has resulted from the cost pressures and difficult projects is innovation and technology – a game changer in the past several years. The mining industry has gone through a complete makeover in terms of automation. Mining companies are now using automated trucks, drilling and blasting, haulage systems, and more. It is no longer unthinkable that an underground mine can be operated from a remote office at surface level using remote controls.

Another positive change is the advances that have been made in sustainable development. This concept has completely evolved in the last 15 years. Now, before a mining company can even dream of a new deposit, it must evaluate and plan for impacts on the environment and neighbouring communities. The mining company's reputation depends on it. I believe these changes have improved the public perception of the industry, as well as public confidence.

2. You've been with Osisko Mining Corporation in escalating roles from 2008 to 2014 until its acquisition by Yamana Gold and Agnico Eagle, and since then with Osisko Gold Royalties as CFO and Vice President, Finance. What are some of the most significant changes you've seen at Osisko, going from a mining company to a royalty business?

Responding to an unsolicited takeover bid from a major Canadian producer in early 2014 was a very challenging experience. We were not ready to sell the company at that time, but in the end we feel we succeeded in finding a positive alternative for the shareholders, and the deal that was struck with Yamana Gold and Agnico Eagle was

phenomenal because we increased value for shareholders.

But let's be clear, there was no partying at the office after closing. In a day, we went from a company of almost 800 employees to a company of only 10. We had to first accept that we were no longer a mining company, and adopt our new identity as a royalty company.

They are actually quite different business models. Royalty companies are heavily dependent on due diligence processes and work like a financing company, replacing or complementing the role of banks for the mining industry. We came out of that deal with a new royalty company listed on the Toronto Stock Exchange that held a 5 percent net smelter return royalty on the Canadian Malartic gold mine and \$157 million cash. Now, 3.5 years after its creation, Osisko Gold Royalties increased its market capitalization from \$0.5 billion to \$2.3 billion, is dual-listed on the New York Stock Exchange, and our mining background along with an incredible technical team has become our trademark, which we have put to good use through our investments in exploration and development mining companies.

3. Osisko Gold Royalties reported record quarterly revenue and gold equivalent ounces in 2017. With the mining industry actively focused on cutting costs, what controls can a streaming/royalties company put in place to reduce costs and maximize profit for shareholders?

The cost structure is very different for a royalty company, which has a much lower cost risk compared to a mining company. Increased operating costs become a problem for a royalty company only when the mine can no longer afford to operate economically and production is impacted. Otherwise, the royalty company

continues to receive its share of production. Depending on the type of interest (royalty, stream or offtake), our costs are limited to the transfer prices paid to the operator. The main costs that we can influence are the G&A and business development costs. As we grow our operating asset base, our G&A costs will be lower relative to our revenues. For a royalty company with our growth model, we needed a base level to start with, but this base will not grow in proportion to our revenue growth.

4. Osisko Gold Royalties just paid its 13th consecutive quarterly dividend. Why has this policy made sense for Osisko and its shareholders?

We started the quarterly dividend program in the first year of our creation at \$0.03 per share and increased it to \$0.05 per share in 2017. Shareholders expect a consistent dividend from a royalty company. Osisko is dedicated to increase the dividends and the return to our shareholders as we increase our operating cash flows.

5. Most of your assets are located in North America. Why do you focus on royalties in this jurisdiction, and what do you find are some of the opportunities versus challenges of investing in North America compared to other jurisdictions like Chile, Macedonia and Armenia?

We like North America, especially Canada, with its low risk profile, high corporate social responsibility and environmental standards. We would like to have the majority of our assets in the Americas, but are open to other jurisdictions depending on the project and the operator. Our team has experience in South America and Africa, but what makes the difference is the quality of the ore body, the mine life and the quality of the operator.

Currently most of the international royalty, stream and other interests that we hold were acquired through the acquisition of the Orion portfolio for \$1.1 billion in July 2017.

6. Osisko has been active in the M&A market in 2017, most notably with the acquisition of Orion Mine Finance. Why did that transaction make sense for you and what specifically did you like about the Orion portfolio of royalties, streams and offtakes?

This transaction was transformational for Osisko. It provided the Company with additional producing and near-term cash flowing assets, and we were able to maintain our precious metal focus with 80 percent of the cash flowing assets from North America. We now have the best growth profile in the royalty sector.

7. What are the benefits of alternative financing sources (i.e., streams, royalties, offtake, etc.), and how do you think the mining companies view this financing options?

It provides for a more flexible funding option for mining companies, especially at more difficult times, like a bearish equity market, balance sheet weakness, and early stage financing with higher risks (e.g., permitting and construction risks).

Osisko also brings a crucial value add to the operator with our strong technical team. Our team has substantial collective experience in the construction and operation stages, so we are able to provide valuable assistance/ideas in those areas.

8. Looking forward, how will alternative financing companies continue to thrive through the commodity cycle, and what threat does the return of traditional financing pose?

I think that royalty and streaming companies will continue to thrive on the flexibility they provide compared to traditional financing. The cyclical nature of the mining business provides opportunities at down cycles where early stage financing will remain difficult. Osisko's "accelerator model," where we leverage our financial and technical experience on projects where we have royalty or stream options at earlier stage, allows us to create royalty and stream interests through our early involvement. Traditional finance sources don't provide this same level of support to the board and management, or maintain shareholder positions. We believe that this model provides us with an incredible optionality to a business, which is already known for its big upside potential.

Contact us

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