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Yamana Gold to Buy 50% of Osisko's Mining Assets

Osisko Seeks to End Hostile Takeover Offer From Goldcorp

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Yamana Gold Inc. took a 50% stake in the mining assets of fellow Canadian gold miner Osisko Mining Corp. on Wednesday, as part of a surprise 1.37 billion Canadian dollar ($1.24 billion) deal that could trump a hostile takeover offer from industry giant Goldcorp Inc.

Montreal-based Osisko said the deal would have Yamana pay C$441.5 million in cash and 95.7 million shares worth C$929.6 million for the 50% stake in all of Osisko's mining and exploration assets. The share portion is based on the closing price of Yamana's shares in Toronto on Tuesday.

As part of a complex deal that one analyst described as unique, Osisko also tapped two big Canadian pension funds for additional funding of C$550 million. Under this agreement, Osisko will increase an existing credit facility with the Canada Pension Plan Investment Board, and sell the rights to a stream of gold from its flagship Malartic mine in Quebec to that province's major pension fund, Caisse de dépôt et placement du Québec. This C$550 million, together with the cash from Yamana, will generate about C$1 billion to be distributed to Osisko shareholders, the mining company said.

Many analysts appeared to express some confusion over the terms during a conference call with both companies.

Goldcorp's cash-and-stock bid, which is for all of Osisko, is currently worth C$2.77 billion. Osisko had been looking for alternative transactions since Goldcorp launched its offer in January.

A Goldcorp spokeswoman said the company was evaluating the rival bid. The announcement came on a day when Goldcorp officials were in Quebec looking at Osisko's properties, both companies said.

Yamana's counterbid underscores the premium that mining companies are currently placing on gold deposits in stable political jurisdictions like Canada, an advantage that has been emphasized by Peter Marrone, chief executive officer at Yamana Gold. Many gold mining companies have had troubles in developing countries, where governments have increased taxes, made greater environmental demands and even canceled projects.

"You have to give more value to places where there is a friendliness to mining," Mr. Marrone said in an interview.

Yamana and Goldcorp have been eager to get their hands on Osisko's massive Malartic mine in Quebec. Osisko said it would continue to operate that mine and all its other projects, under the guidance of a joint operating committee.

Mr. Marrone and Osisko Chief Executive Sean Roosen said that the new venture would not be looking to sell or spin off the exploration projects that Osisko also owns, as analysts had speculated Goldcorp would do if successful in its bid.

Analysts had also predicted that no other mining company would bid against Goldcorp, the world's second-biggest gold miner by market capitalization after Barrick Gold Corp.

"I could see Goldcorp coming back" with a counterbid, said ***Pawel Rajszel***, an analyst at ***Veritas Investment Research*** in Toronto. "They have been chasing this asset for five years and there is no reason they would let it slip through their fingers."

Both CEOs said that shareholders had reacted well to the deal and that over 5% of Osisko's share base has already committed to it.

"My shareholders have the ability to enjoy a premium that has been offered and to still own a project [Malartic]…so reaction has been very positive," Mr. Roosen said.

As part of the Yamana deal, Osisko said it would maintain its head office in Montreal. Some lawmakers in Quebec had worried that a successful bid by Goldcorp could see the province lose a head office. One of the mandates of the Caisse de dépôt is to invest in Quebec-based companies to help foster economic development of the largely French-speaking province. Osisko CEO Roosen said that Wednesday's agreement with the massive fund "sets the stage" for it to look for other projects in which to invest.

A Goldcorp takeover of Osisko would have been the largest deal in gold mining since late 2011. There is a general lack of mergers and acquisitions in the mining sector currently because of lower metals prices and a push to reduce debt after an earlier period of costly takeovers, among other factors. Last year's takeover tally ranked as the lowest, by value, since 2004, according to data provider Dealogic.

If approved by shareholders, the transaction will close by May 30.

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