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# The Catalyst

CAMLIN ASSET  
MANAGEMENT  
700 West Georgia St.  
Suite 1770  
Vancouver, BC Canada

PHONE:  
425-749-7290  
604-288-7474

FAX:  
604-408-7474

E-MAIL:  
fred.camp@hotmail.com

## Private Equity Buyouts hit a record in 2006

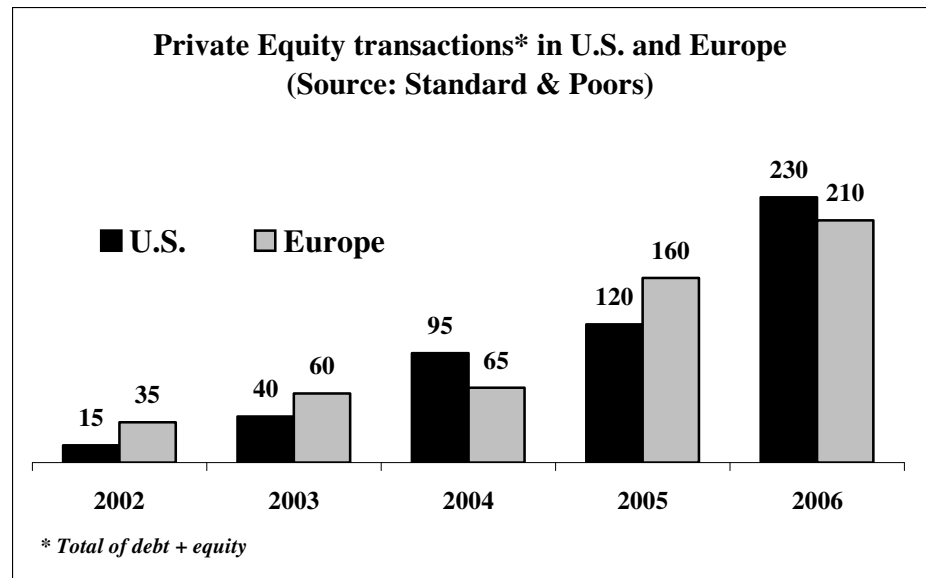
As chart 1 illustrates, private equity buyouts of public companies in the U.S. and Europe hit a combined record of \$440 Billion U.S. in 2006.

This trend is likely to continue to accelerate in

2007, with over \$400 billion in new capital having been raised by private equity firms last year.

Blackstone Groups' recent winning bid of \$39 Billion (including debt) for Equity Office

Properties set a new record for private equity acquisitions. The pending privatization of TXU by Kohlberg Kravis Roberts & Co. for \$45 Billion (including debt) will break this record.



Highlights:

Private Equity Buyouts	1
Spotlight: Mining	1, 2
CIO Commentary	2
Performance	2

## M&A Activity in Mining

The mining industry, both activity in 2004, as the take over of base metals and precious metals has experienced a substantial increase in M&A activity over the past two years. After bottoming out at U.S. \$15.6B in

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resurgence of the interest in the sector. After decades of a weak pricing environment for metals, several factors have come together to dramatically improve the fundamentals of the industry.

On the demand side, the well-documented industrialization of China and to a lesser extent India is occurring at a rapid pace, requiring massive amounts of infrastructure spending which consumes vast amounts of copper, zinc, and nickel.

However it is the supply side which is truly the catalyst for both commodity strength and merger activity. The previous 30 year bear market in base metals led to minimal exploration and development of new supplies, particularly in zinc and nickel. Given the long lead times in finding resources, permitting and putting a mine into production has led to some of the tightest inventories ever recorded.

On the corporate side, after 2 years of robust pricing, the majors now have healthy balance

sheets, lots of currency in the form of strong share prices, and bankers willing to finance any potential deals. For instance, the three largest non-North American conglomerates (BHP, Rio Tinto, and CVRD) alone have a combined market cap of US\$240B, net debt of < 5% of enterprise value and are generating over US\$30B/year of cash flow. Those producing in the second tier such as Phelps Dodge, Teck Cominco, and Freeport currently have no net debt and are generating between US\$2-4B of cash flows per annum.

Most large producers focused on operating efficiencies during the long downtrend at the expense of explorations, so there is now a pressing need to replace those dwindling reserves or push into the new meta sectors. In most instances it is cheaper for them to acquire those reserves and projects than to explore on their own.

The Canadian equity markets are extremely well positioned to benefit from the resurgence in mining. Historically Canada has been a centre of excellence on the world stage from the

perspective of production management, operating and explorations talent, willingness to finance, new ventures and access to decent liquidity pools. The Canadian equity market currently finances over 70% of global junior mining exploration and development activity. While the recent acquisitions of Inco and Falconbridge means the loss of Canadian head offices, experienced mining operators are in high demands and are likely to re-surface in new ventures providing additional momentum in bringing projects into development.

The Camlin M&A Fund currently holds 30 mining stocks that have attractive M&A profiles over the next 1-2 years. While there will undoubtedly continue to be volatility in commodity prices (and consequently equity valuations) given the speculative nature of some of the investors in the sector, we believe the confluence of the above factors should continue to make mining and attractive area for M&A activity.

## CIO 4<sup>th</sup> Quarter Commentary

### Gross annual returns\* (December 31, 2006)

Q4 2006	7.36
Calendar 2006	16.82
1 Year	16.82
2 Year	19.57
3 Year	22.10
4 Year	31.01
5 Year	21.62

\* Percentage Returns in USD.

The Camlin M&A Fund rose 7.36% on a gross basis in Q4 and was up 16.82% for the year. This compares to 8.24% and 12.27% for the Russell 2500 quarterly and annually.

Strong performance in 4 of our core sectors (financials, health care,

technology and base metals/golds) were partially offset by continued weakness in oil and gas.

The Fund was negatively impacted in the quarter by its exposure to Canadian small cap gas stocks.

This sector was hit hard by the ongoing weakness in gas commodity prices and the elimination of the trust conversion option as an exit scenario due to legislative changes in the Canadian Tax Act.