



Brazil and Canada – Partners in Mining

Financing Mineral Exploration and Mining Projects

The Canadian Perspective

SIMEXMIN 2010

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Agenda

1. Canadian Mining Industry

- A. A Key Canadian Industry
- B. Canadian Mineral Exploration Industry

2. Finance Alternatives

- A. Farm-in
- B. Joint Ventures
- C. Capital Markets

3. Case Studies

- A. Rio Novo Gold Inc.
- B. MBAC
- C. Brazilian Gold Corporation

4. Conclusions

1. Canadian Mining Industry

A. A Key Canadian Industry

- Mineral Production in Canada:
 - \$32.2 billion or 2.5% of gross domestic product (2009). \$8.2 billion – Canada's Mineral and Exploration Expenditures 2009 – expected to rise to \$10.6 billion in 2010.
 - In 2007, there were 213 producing mines (not counting sand, gravel and stone) and operating smelters and refiners in more than 115 communities across Canada.
 - Top producer of gold, coal, iron, lead, nickel, zinc, chrysotile, and a world leader in the production of potash and uranium.
- Employment in Mineral Production:
 - 58,000 Canadians in extraction + processing (2008).
- Non-fuel mineral exports for 2008 were valued at \$483 billion, accounting for roughly 18% of Canadian exports.

Source: NRCan <http://mmsd.mms.nrcan.gc.ca/stat-stat/prod-prod/2009p-eng.aspx> , <http://mmsd.mms.nrcan.gc.ca/stat-stat/expl-expl/3-eng.aspx> , <http://www.nrcan-rncan.gc.ca/mms-smm/busi-indu/cmy-amc/2008revu/stat-stat/tab16-21-eng.htm> , <http://www.nrcan-rncan.gc.ca/mms-smm/busi-indu/cmy-amc/2008revu/stat-stat/tab22-30-eng.htm> , <http://mmsd.mms.nrcan.gc.ca/stat-stat/trad-comm/6-eng.aspx>

Statistics Canada <http://www.statcan.gc.ca/daily-quotidien/100301/t100301a3-eng.htm>

1. Canadian Mining Industry

B. Canadian Mineral Exploration Industry

In 2009:

- **Canadian Public Companies:**
 - 3662 mineral properties in over 100 countries around the world
 - 68% of Canadian companies work on properties abroad
 - Account for 27% of all South American exploration activity
- **Canadian-listed companies conducted about 34% of all mineral exploration undertaken in the world.**
- **Approximately 16% of exploration budgets of global exploration capital is Canadian.**
- **Canadian-based companies accounted for 34% of all exploration in South America.**

Source: <http://www.nrcan-rncan.gc.ca/mms-smm/busi-indu/cme-omc-eng.htm>

2. Finance Alternatives

A. Farm-in

- Interesting structure to finance early stage mineral exploration projects.
- Owner of the project grant an option to investor.
 - Investor: right to acquire a certain interest in the project; and
 - Owner: obtain funding for the project.
- Risk allocation
 - Investor: exploration risk and cost; and
 - Owner: permitting and other local issues.



**Investor Brings \$
for exploration**



2. Finance Alternatives

A. Farm-in

- **Main Issues**

- *Balance between exploration cost and interest to be earned-in*
 - Exploration activities conducted & Results
 - Exploration costs
 - Objectives of each of the parties involved
 - Existing technical information and due diligence
- *Control over the project*
 - Definition of exploration program
 - Responsible for the exploration program
 - Day-to-day activities; etc.
- *Deadlines*
 - Reasonable
 - Consider the term of the exploration authorization

2. Finance Alternatives

A. Farm-in

- **Main Issues**

- *Guarantees*

- What kind of guarantees each of the parties will have?
 - In Brazil could be complicated.
 - Owner perspective: make sure \$ will be spent according to the exploration program
 - Investor perspective: make sure that he will be able to earn-in the agreed interest in the project upon completion of the deadlines.

- *Termination*

- By the owner: normally only if investor is in breach of the agreement
 - By the investor: is there a minimum expenditure commitment or not?

- *Confidentiality and Ownership of Technical Information* (investor and owner proprietary information, use and right to receive all docs and info)

- *Dispute Resolution* (arbitration v. courts)

2. Finance Alternatives

B. Joint Ventures

- **Interesting structure to joint develop mineral projects.**
 - Good cost and risk sharing
 - Create synergies
- **Several forms of structure.**
 - All parties contribute properties and cash to joint develop a mineral project.
 - A party contribute the properties and another party cash to joint develop a mineral project; and
 - Could be contractual joint venture (common law jurisdiction) or corporate joint venture.
- **Risk allocation**
 - The JV partners share the risks according to their participation in the project.

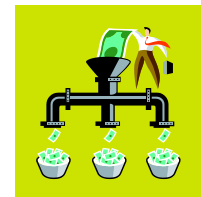
Jointly explore the properties



Jointly exploit the properties



Share results



2. Finance Alternatives

B. Joint Ventures

- **Main Issues**

- *Selecting a JV Partner – The “Trust Principle”*
 - Due diligence
 - Corporate culture
 - Common objective
 - Synergies
- *Adopting an Appropriate Legal Structure*
 - Common law countries v. Civil law countries
 - Contractual joint ventures v. corporate joint ventures
 - In Brazil: Ltda, S/A etc. (not contractual)
 - Guarantees (for each JV partner)
 - Tax structure
 - Liabilities
 - Governance structure

2. Finance Alternatives

B. Joint Ventures

- **Operating the Joint Venture**
 - Culture
 - Operator
 - Fees
 - Rights
 - Obligations etc
 - Management, Decision Making and Dispute Resolution
 - Financing the Joint Venture
 - capital calls – debt finance
 - Dilution
 - dividends distribution etc.
 - Marketing rights and In-kind rights
 - Off-Take and Royalty Agreements

2. Finance Alternatives

C. Capital Markets: Why Canada?

- Better liquidity than certain markets such as AIM
 - Significant retail participation
- Access to U.S. market
 - Without onerous compliance obligations, costs and risks associated with a U.S. listing
- Valuations – significant base of comparables
- Access to Canadian mining focused capital markets
- Access to Canadian mining focused consultants
- Exposure to other mining issuers – creating opportunities
 - Joint Ventures, Farm-Ins, Private M&A etc.
- Share currency

2. Finance Alternatives

C. Capital Markets: Type of Structures/Alternatives

- List on the TSX
 - Already listed on a foreign exchange
 - No financing is required
 - No Canadian distribution requirements
- Reverse Take-over
 - Share exchange or corporate transaction with an existing public “shell” company
 - Provides required shareholder distribution
 - Can be as time consuming and expensive
 - Shell may not be clean
- CPC/SPAC Company
 - Similar to reverse take-over
 - Purpose built blank check company
 - Good for small companies that may not be able to do an IPO
- Initial Public Offering
 - File a prospectus in Canada – Traditional method
 - Concurrent financing – capital and shareholder distribution
 - Can have concurrent secondary offering

2. Finance Alternatives

C. Capital Markets: IPO Timeline

Key Step	Timeline
Organizational meeting to discuss timing and responsibilities for the completion of the initial public offering (“IPO”)	Week 1
Commence preparation of the preliminary long form prospectus (the “Preliminary Prospectus”)	Week 2
Commence due diligence process on the Company	Week 2
Finalize composition of Company’s board of directors and management	Week 4
File Preliminary Prospectus and obtain receipts	Week 5
File Preliminary Prospectus with the TSX as listing application	Week 5
Circulate draft Underwriting Agreement	Week 6
Commence marketing of the IPO	Week 6
Receive and respond to comment letters from the securities regulatory authorities	Week 6/7
Finalize the final prospectus (the “Final Prospectus”)	Week 8
Final pricing	Week 9
Finalize and execute the Underwriting Agreement	Week 9
Finalize and file the Final Prospectus and obtain receipts	Week 9
Close the IPO	Week 10/11
Commence trading of shares on the facilities of the TSX	Week 10/11

2. Finance Alternatives

C. Capital Markets: Some Keys to a Successful Canadian Offering and/or Listing

- Completing a financing in connection with “going public” transaction
 - Canadian shareholder base
 - Awareness on street
- Selecting appropriate syndicate
 - Distribution – institutional and retail
 - Post-offering support
 - Research
 - account relations
- Canadian board representation
 - Credibility
 - Permanent presence in Canada
- On-going investor relations activities
 - Investor relations firm
 - Account meetings

2. Finance Alternatives

C. Capital Markets: Requirements

- Requirements will vary depending on method and market
- TSX Minimum listing requirements – Exploration Stage Companies
 - Advanced Property (economically interesting grades with demonstrated continuity)
 - \$750,000 recommended work program
 - \$2,000,000 working capital
 - \$3,000,000 net tangible assets
 - Worldwide 300 public shareholders holding 1,000,000 freely-tradable shares with a value of at least \$4,000,000
 - Suitable management with public company experience
 - No
 - Canadian director requirement
 - Canadian shareholder requirement



2. Finance Alternatives

C. Capital Markets: Requirements

- Financial Statements
 - Three years of historical audited financial statements
 - Canadian company - Canadian GAAP
 - Foreign company – Canadian GAAP, IFRS or US GAAP if provide Canadian GAAP reconciliation
- 43-101 compliant technical report
 - Foreign companies can report reserves and resources in accordance with JORC, SAMREC, IMMM or Industry Guide 7 – with reconciliation to 43-101 categories



2. Finance Alternatives

C. Capital Markets: TSX Listing Criteria for Mining Companies

LISTING REQUIREMENTS FOR EXPLORATION & MINING COMPANIES					
					
Minimum Listing Requirements	TSX Venture Tier 1	TSX Venture Tier 2	TSX Non-exempt Exploration and Development Stage	TSX Non-exempt Producer	TSX Exempt
Property Requirements	Material interest in a Tier 1 property ⁵	Significant Interest in qualifying property or at discretion of Exchange, hold rights to earn a significant interest in qualifying property with \$100,000 expenditures in the past three years by applicant issuer or sufficient expenditures incurred such that the property is a Tier 1 property	Advanced Exploration Property ³ Minimum 50% ownership in the property ⁴	Three years proven and probable reserves as estimated by an independent qualified person (if not in production, a production decision made)	Three years proven and probable reserves as estimated by an independent qualified person
Recommended Work Program	\$500,000 on the Tier 1 property ⁵ as recommended by geological report	\$200,000 on the qualifying property as recommended by geological report	\$750,000 on advanced exploration property as recommended in Independent technical report	Bringing the mine into commercial production	Commercial level mining operations
Working Capital and Financial Resources	Adequate for: work program + 18 mos. G&A ¹ + 18 mos. Property payments to keep Tier 1 property ³ and principal properties ² in good standing +\$100,000 unallocated	Adequate working capital and financial resources including: work program +12 mos. G&A ¹ +12 mos. Property payments to keep qualifying property and principal properties ² in good standing +\$100,000 unallocated	Minimum \$2.0 million working capital, but sufficient to complete recommended programs, plus 18 months G&A, anticipated property payments and capital expenditures. Appropriate capital structure	Adequate funds to bring the property into commercial production; plus adequate working capital for all budgeted capital expenditures and to carry on the business. Appropriate capital structure	Adequate working capital to carry on the business. Appropriate capital structure.
Net Tangible Assets, Earnings or Revenue	\$2,000,000 net tangible assets	No requirement	\$3,000,000 net tangible assets	\$4,000,000 net tangible assets; evidence indicating a reasonable likelihood of future profitability supported by a feasibility study or historical production and financial performance	\$7,500,000 net tangible assets; pre-tax profitability from ongoing operations in last fiscal year; pre-tax cash flow of \$700,000 in last fiscal year and average of \$500,000 for past two fiscal years

2. Finance Alternatives

C. Capital Markets: TSX Listing Criteria for Mining Companies

LISTING REQUIREMENTS FOR EXPLORATION & MINING COMPANIES					
					
Minimum Listing Requirements	TSX Venture Tier 1	TSX Venture Tier 2	TSX Non-exempt Exploration and Development Stage	TSX Non-exempt Producer	TSX Exempt
Other Criteria	Geological report recommending completion of work program or positive feasibility study or production levels exhibiting a likelihood of positive cash flow	Geological report recommending completion of work program	Up-to-date, comprehensive technical report prepared by independent qualified person and 18 month projection (by quarter) of sources and uses of funds, signed by CFO		Up to date, comprehensive Technical Report prepared by independent qualified person
Management and Board of Directors	Management, including the board of directors, should have adequate experience and technical expertise relevant to the company's business and industry as well as adequate public company experience. Companies are required to have at least two Independent directors.				
Distribution, Market Capitalization and Public Float	\$1,000,000 held by Public Shareholders; 1,000,000 free trading public shares; 200 Public Shareholders with a Board Lot and no Resale Restrictions; 10% Public Float; 20% of issued and outstanding shares in the hands of Public Shareholders	\$500,000 held by Public Shareholders; 500,000 free trading public shares; 200 Public Shareholders with a Board Lot and no Resale Restrictions; 10% Public Float; 20% of issued and outstanding shares in the hands of Public Shareholders	\$4,000,000 publicly held 1,000,000 free trading public shares; 300 public holders with board lots		
Sponsorship	Sponsor report may be required (not required for IPOs or certain other exemptions for North American properties)		Required (may be waived if sufficient previous 3 rd party due diligence)		Not required

2. Finance Alternatives

C. Capital Markets: On-Going Obligations

- Canadian continuous disclosure requirements
 - Relief for foreign inter-listed companies from “designated foreign jurisdictions”
 - Brazil is not a “designated foreign jurisdiction” allowing for relief from Canadian reporting requirements.
 - News releases, material change reports, MD&A, proxy materials, annual information forms.
 - Financial statements in accordance with Canadian GAAP, International Financial Reporting Standards or U.S. GAAP if provide Canadian GAAP reconciliation.
- Corporate governance obligations
- Translation
- Annual fees to securities commissions
- TSX annual sustaining fees

3. Case Studies

A. Rio Novo Gold

Business	Gold exploration and development in Brazil
Listing Date	March 8, 2010
Interlisting	N/A
Financings	\$46 million IPO on March 8, 2010
TSX Trading Volume	Average Daily Volume: 192,000
Share Price	\$1.30 on May 11, 2010

3. Case Studies

B. MBAC Fertilizer Corp.

Business	Canadian-based fertilizer producer engaged in mining of phosphate rock through the exploration, extraction, and processing in Brazil.
Listing Date	Dec 30, 2009
Interlisting	N/A
Financings	Dec 23, 2009 - \$56,731,250 Private placement
TSX Trading Volume	Average Daily Volume: 60,300
Share Price	\$1.94 on May 11, 2010
Status	Dec 24, 2009 - MBAC Fertilizer Corp. completed the acquisition of MBAC Opportunities and Financing Inc. by way of a three cornered amalgamation: <ul style="list-style-type: none">–Sandwell Mining Ltd. (publicly traded) acquires MBAC Opportunities and Financing Inc.–Sandwell Mining Ltd. changes name to MBAC Fertilizer Corp.

3. Case Studies

C. Brazilian Gold Corporation

Business	Junior exploration company exploring properties in northern Brazil.
Listing Date	Jan 6, 2010
Interlisting	N/A
Financings	Nov 2005 - \$3,006,000 Private Placement Jun 2006 - \$18,600,000 Private Placement
TSX Trading Volume	Average Daily Volume: 72,400
Share Price	\$0.345 on 11 May 2010
Status	<p>Sept 19, 2009: BGC entered into a transaction with MapGold to obtain up to 80% of the mineral rights for four properties located in Amazonas State, Brazil. Details: Mapex and CRC are transferring their rights to Maues Mineração, a subsidiary of Maues Minerals. Cabral (owned by BGC), will acquire a 49% interest in Maues, with the option to increase to 80% for an additional \$7.8M USD, which MapGold can choose to take in shares. Failure to pay the \$7.8M will reduce Cabral's interest in Maues to 15%.</p> <p>Jan 21, 2010: BGC entered into a transaction with Octa Mineração and D'Gold Mineral to acquire up to 51% of BVG Inc., which holds the rights to the Boa Vista Gold property through its ownership of Golden Tapajós. Details: BGC has paid \$600,000 and must incur \$3M in exploration expenses within the next two years. In exchange for this, Octa and D'Gold will transfer their interest in Golden to BVG and grant BGC the option to enter into a JV or acquire a 19% interest in BVG.</p>

4. Conclusions

- A. Mining industry continue to be a key industry, despite the 2008 crises.
 - 1. There are several finance opportunities available for exploration companies
 - 2. Key: project well structured & appropriate finance alternative
 - 3. Investor/Buyer: more requirements to invest

- B. Carefully evaluate each finance alternative.
 - 1. Draft a complete business plan for your project
 - 2. Create a multidisciplinary working group to evaluate and validate your business plan (finance professionals, accountants, lawyers, geologists)
 - 3. Discuss the finance alternatives (including available debt finance – not covered by this presentation)

- C. Chose the structure that fits better the characteristics of your project and the need of the parties involved.
 - 1. Regulatory environment
 - 2. Characteristics of the project
 - 3. Operations needs

5. Statistics

TABLE 1. MINERAL PRODUCTION BY PROVINCE AND TERRITORY, 2009 (p)

	Metallics	Nonmetallics	Coal	Total	% Share of Production
	(\$000)				(%)
Newfoundland and Labrador	2 244 081.5	45 714.6	–	2 289 796.1	7.1
Prince Edward Island	–	3 386.0	–	3 386.0	0.0
Nova Scotia	–	380 082.0	–	380 082.0	1.2
New Brunswick	749 602.7	x	x	1 090 375.2	3.4
Quebec	4 624 393.9	1 592 676.7	–	6 217 070.6	19.3
Ontario	3 789 984.1	2 540 162.5	–	6 330 146.6	19.7
Manitoba	1 176 770.9	143 733.3	–	1 320 504.2	4.1
Saskatchewan	1 441 199.2	x	x	5 010 467.2	15.6
Alberta	1 968.6	951 889.9	1 061 690.0	2 015 518.5	6.3
British Columbia	1 828 374.9	588 682.1	3 316 510.0	5 733 567.1	17.8
Yukon Territory	245 016.7	5 943.4	–	250 960.1	0.8
Northwest Territories	50 100.0	1 459 528.1	–	1 509 628.1	4.7
Nunavut (1)	–	–	–	–	–
Total	16 151 492.5	11 455 586.3	4 544 423.0	32 151 501.8	100.0

Sources: Natural Resources Canada; Statistics Canada.

– Nil; (p) Preliminary; x Confidential.

(1) Mineral production of sand and gravel for Nunavut is included in the Northwest Territories.

Notes: Numbers may not add due to rounding. Production is based on shipments. For full details of the methods used in computing the mineral production of Canada, please refer to the Appendix in Statistics Canada catalogue no. 26-202-XIB.

Source: NRCan http://mmsd.mms.nrcan.gc.ca/stat-stat/prod-prod/PDF/ib2010_e.pdf

5. Statistics

TABLE 2. PRODUCTION OF CANADA'S LEADING MINERALS, 2009 (p)

	Production 2009 (p)	Change From 2008	Value 2009 (p)	Change From 2008
	(000 tonnes except where noted)	(%)	(\$ millions)	(%)
METALLIC MINERALS				
Gold (kg)	95 697.5	0.8	3 364.9	18.7
Iron ore	31 698.8	-1.3	3 174.2	-21.9
Copper	480.4	-17.7	2 774.7	-35.9
Nickel	131.6	-46.5	2 238.6	-60.8
Uranium (1)	10.1	15.8	1 392.1	45.9
Zinc	672.4	-4.6	1 242.6	-11.8
Other metals	n.a.	n.a.	1 964.4	-40.3
Total metals	n.a.	n.a.	16 151.5	-28.5
NONMETALLIC MINERALS				
Potash (K ₂ O) (2)	4 318.4	-58.4	3 380.3	-55.9
Diamonds (000 ct)	10 946.1	-24.6	1 684.3	-28.9
Sand and Gravel (4)	216 169.7	-10.5	1 487.4	-12.0
Cement (3)	10 950.8	-19.5	1 440.5	-16.9
Stone (4)	135 894.6	-11.5	1 324.0	-11.0
Salt	14 565.7	2.4	664.1	23.6
Other nonmetals	n.a.	n.a.	1 475.0	-62.1
Total nonmetals	n.a.	n.a.	11 455.6	-40.9
FUELS				
Coal	62 615.0	-7.6	4 544.4	-8.9

Sources: Natural Resources Canada; Statistics Canada.

n.a. Not applicable; (p) Preliminary.

(1) Uranium value is calculated using spot market prices. (2) Excludes shipments to potassium sulphate plants. (3) Includes exported clinker minus imported clinker. (4) Excludes shipments of sand and gravel and stone to Canadian cement, lime, and clay plants.

Note: Totals may not add due to rounding.

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Source: NRCAN http://mmsd.mms.nrcan.gc.ca/stat-stat/prod-prod/PDF/ib2010_e.pdf

TABLE 3. LEADING MINERALS (INCLUDING COAL) BY VALUE OF OUTPUT IN 2009 (p)

	(\$ billions)
Coal	4.5
Potash (K ₂ O) (1)	3.4
Gold	3.4
Iron ore	3.2
Copper	2.8
Nickel	2.2
Diamonds	1.7
Sand and gravel (4)	1.5
Cement (3)	1.4
Uranium (2)	1.4
Stone (4)	1.3
Zinc	1.2
Salt	0.6

Sources: Natural Resources Canada; Statistics Canada.

(p) Preliminary.

(1) Excludes shipments to potassium sulphate plants. (2) Uranium value is calculated using spot market prices.

(3) Includes exported clinker minus imported clinker. (4) Excludes shipments of sand and gravel and stone to Canadian cement, lime and clay plants.

The value of nickel production declined sharply from \$5.7 billion in 2008 to \$2.2 billion in 2009. Two major factors accounted for the drop in nickel values: first, average world market prices declined from \$23.2/kg in 2008 to \$17/kg; and second, the quantity produced dropped by nearly 50% from 246 million kg to 132 million kg.³ Xstrata closed its Sudbury operations and suspended production at two other mines. Vale Inco suspended operations at three mines and its production also dropped due to a strike by miners at both Sudbury and Voisey's Bay from July 2009 onward.⁴ These events played a large part in Canada's reduced nickel production.

The total value of copper dropped from \$4.3 billion to \$2.8 billion. The quantity produced declined from 584 million kg to 480 million kg, while prices dropped from \$7.4/kg to \$5.8/kg.

Iron ore production volumes dropped only marginally, but its total value declined from \$4.1 billion to \$3.2 billion due to reductions in negotiated prices.

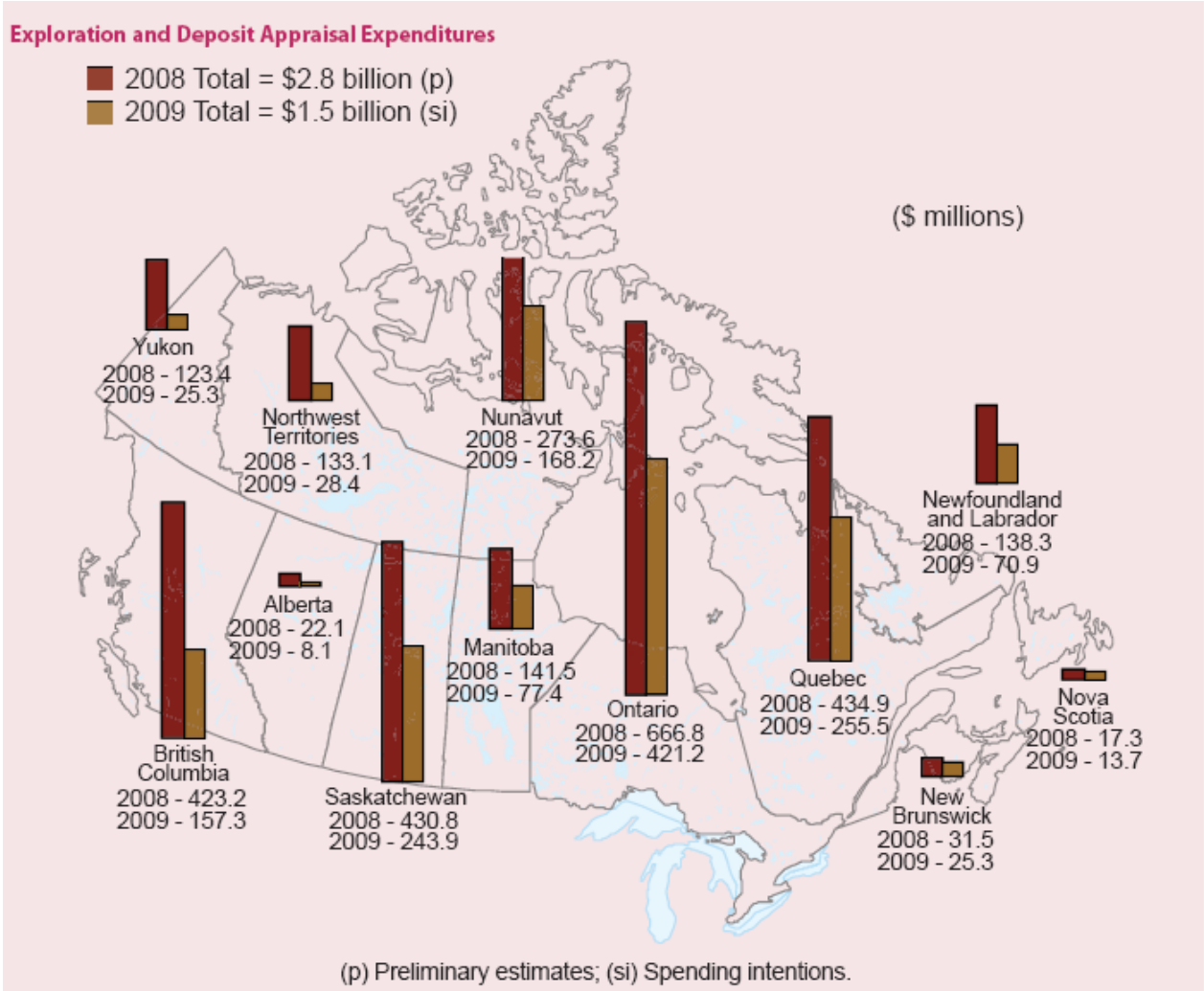
TABLE 4. TOTAL VALUE OF CANADIAN MINERAL PRODUCTION, 2008 AND 2009 (p)

	2008	2009 (p)	Change
	(\$ millions)		(%)
Metals	22 594.4	16 151.5	-28.5
Nonmetals	19 372.0	11 455.6	-40.9
Total non-fuels	41 966.4	27 607.1	-34.2
Coal	4 986.0	4 544.4	-8.9
Total production	46 952.4	32 151.5	-31.5

Sources: Natural Resources Canada; Statistics Canada.

(p) Preliminary.

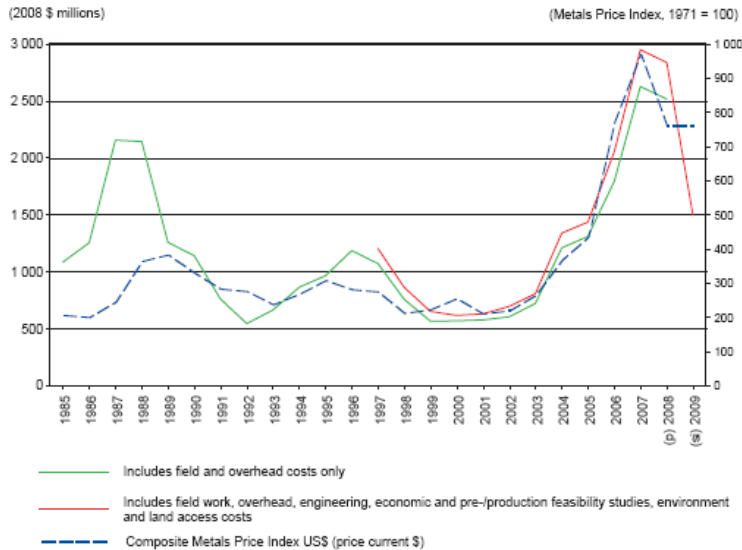
5. Statistics



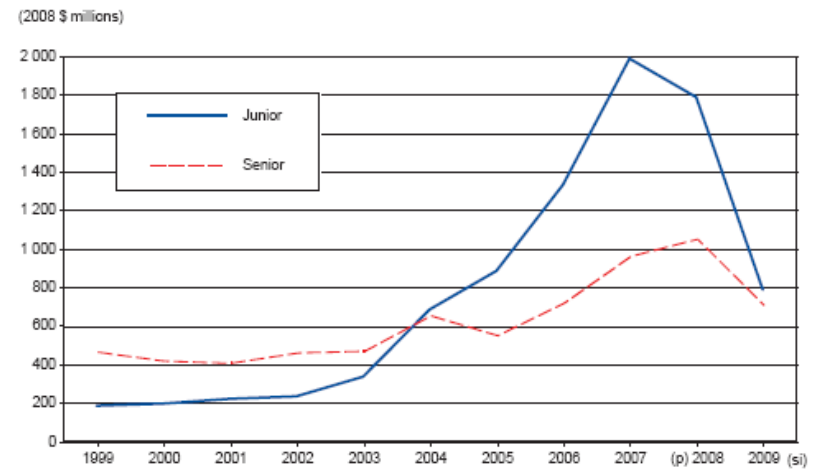
Source: NRCan <http://mmsd.mms.nrcan.gc.ca/stat-stat/expl-expl/pdf/ib2009-eng.pdf>

5. Statistics

Exploration and Deposit Appraisal Expenditures and Metals Price Index, 1985-2009



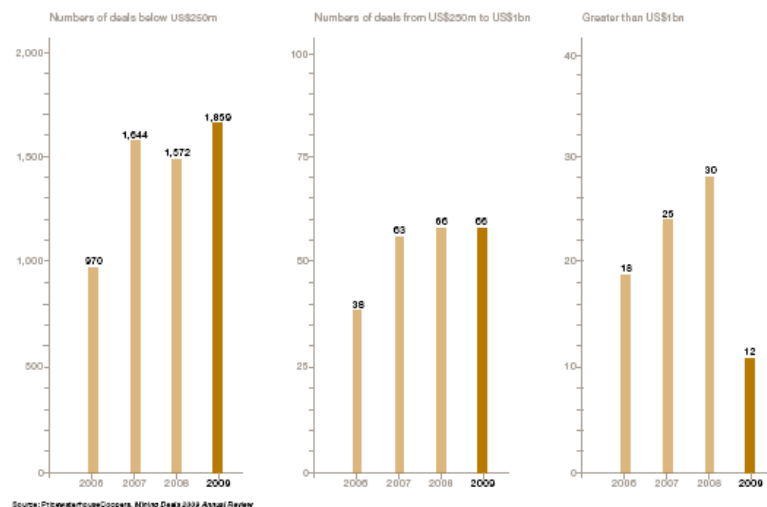
Exploration and Deposit Appraisal Expenditures (1) by Junior and Senior Operators, 1999-2009



Source: NRCAN <http://mmsd.mms.nrcan.gc.ca/stat-stat/expl-expl/pdf/ib2009-eng.pdf>

5. Statistics

Size of mining deals by value, 2006-2009



Source: PricewaterhouseCoopers, Mining Deals 2009 Annual Review

Global M&A market reopens for business during 2010

KPMG International's *Global M&A Predictor* now forecasts modest increases in both M&A appetite and capacity for the coming year. The *Global M&A Predictor* forecasts (1) corporate deal-making appetite by comparing forward PE ratios from a year ago to forward PE ratios currently and (2) corporate deal-making capacity by comparing next year's forecast net debt to EBITDA ratios with current levels.

Source: <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Press-releases/Pages/Press-release-Global-MA-market-reopens-for-business-during-2010-18-Jan-2010.aspx>



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