

05/12/2011 KWG Resources likely to be part of consolidation following Baosteel deal, could spin off subsidiary, CEO says



Proprietary Intelligence

Story

- Companies active in the "Ring of Fire" area of McFauld's Lake include Cliffs Natural Resources, Noront Resources, KWG Resources, UC Resources, Probe Mines and others.
- Recent deals include the acquisition of 9.9% of Noront Resources by Baosteel, and takeovers of Freewest Resources and Spider Resources by Cliffs Natural Resources.

KWG Resources (TSXV:KWG), a Montreal, Quebec-based explorer, will likely be part of a consolidation trend in the McFauld's Lake area of northern Ontario, said President and CEO Frank Smeenck.

He declined to say whether KWG has recently mandated investment bankers for M&A advice, but he predicted potential consolidation among McFauld's Lake companies within 12 to 24 months. As a sign of interest, he cited a recent deal by Chinese steelmaker **Baosteel** to purchase 9.9% of **Noront Resources**, another explorer that discovered nickel, copper and chrome at McFauld's Lake. The Baosteel deal is a "harbinger of things to come," the CEO said.

Potential bidders for KWG could include Noront and Asian companies, he said. A combination of KWG and Noront is "not impossible," Smeenck said. "Many people have talked about it," he added. Noront's market capitalization is CAD 157m. KWG's market capitalization is CAD 60.5m (USD 63.1m). Noront declined comment.

Asian companies could be motivated to acquire KWG because of its 28% ownership interest in the Big Daddy chrome project, the CEO said. Such an acquisition could help them secure their supply of raw material, especially in view of the long-lived nature of the chrome resource, which could last decades, Smeenck said.

KWG's board appointed Canaccord Genuity as financial advisors in May 2010 for a year-long mandate, Smeenck said, related to the previously reported takeover bid by **Cliffs**

Target	KWG Resources Inc	TS DS
Previous Financial advisor	BMO Capital Markets	
Previous Financial advisor	Canaccord Genuity Limited	
Lawyer	Macleod Dixon LLP	
Accountant	PricewaterhouseCoopers LLP (Canada)	
Bidder	Cliffs Natural Resources Inc	TS DS
Bidder	Baoshan Iron & Steel Co Ltd	TS DS
Bidder	Noront Resources Ltd	TS DS
Other	UC Resources	
Other	Probe Mines Ltd.	

Sectors	Mining
SubSectors	Metal ore
Topics	Capital Raises Other M&A Intelligence
Intel Type	Companies for sale Cross Border
Countries	Canada China Japan South Korea USA
Intel. Grade	Confirmed
Intelligence ID	1163317

Natural Resources, which did not go ahead. KWG also worked with BMO during its unsuccessful bid to merge with **Spider Resources** last year, according to company documents. KWG ultimately was left out of last year's deal activity, as Cliffs acquired Spider Resources instead.

KWG's lawyers are Macleod Dixon, and its auditor is PricewaterhouseCoopers.

Smeenk was not certain whether Cliffs Natural Resources, the biggest player in the "Ring of Fire" mineral discoveries area of McFauld's Lake, might be motivated to make another attempt at acquiring KWG. Cliffs already owns 17.6% of KWG, he said.

Through its acquisition of Spider Resources, Cliffs accomplished its goal of obtaining a controlling stake in the Big Daddy chromite deposit, meaning it is likely not interested in acquiring KWG, according to a media report. Cliffs now owns 72% of the Big Daddy project, said a KWG spokesperson. According to a Cliffs document from February, a base case for the development of its chrome assets at McFauld's Lake includes the development of another project named Black Thor. The document does not mention a possible development of Big Daddy.

Meanwhile, KWG's wholly owned subsidiary, **Canada Chrome**, has staked a right-of-way for a potential railway to McFauld's Lake, but Cliffs favors a road to the site, Smeenk said. KWG might spin off Canada Chrome as a private or public company, the CEO said, declining to provide a timeline for a spinoff. KWG is also looking to raise capital, Smeenk said, without specifying the amount sought.

KWG owns two other projects at McFauld's Lake, where it explores for volcanogenic massive sulphides (VMS) copper and zinc mineralization with **UC Resources**, Smeenk said. KWG also owns a 1% net smelter return (NSR) royalty in Big Daddy and in two other chrome projects, the CEO said. It also owns other projects elsewhere, he said.

By Ron Mandel in Toronto

Source	Proprietary Intelligence
Value	USD 63m (Market cap)
Stake Value	N/A

