

## RESEARCH NOTES

Equity Research | Today's Headlines

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### MINING NEWS

#### KWG Resources And Spider Resources Shares Jump On Cliffs' Takeover Bid – Announce Merger

##### **KWG Resources (TSXV:KWG) \$0.145**

577,741,471 shares basic

828,923,980 shares fully diluted

##### **Spider Resources (TSXV:SPQ) \$0.14**

476,336,465 shares basic

653,538,978 shares fully diluted

KWG and Spider resources are mineral exploration companies. Both companies own a 26.5% stake in the Big Daddy Chromite discovery in the James Bay Lowlands (Ring of Fire) of northern Ontario.

- Yesterday, KWG and Spider announced their intention to merge, with each company holding 50 percent of the outstanding shares of the combined company.
- The combined company would hold a 53% interest in the Big Daddy chromite deposit and have the option to earn up to a 60% interest.
- There is a break fee of \$2.3 million.
- The merger came after the announcement by Cliffs Natural Resources (NYSE:CLF) on Monday of its intention to purchase both KWG and Spider for \$0.13 per share. Cliffs owns the remaining 47% interest in the Big Daddy discovery as a result of its purchase of Freewest Resources last year for roughly US\$182 million. Cliffs indicated it only needed to acquire one of the companies to satisfy its objective.
- After resumption of trading, shares of KWG closed up 6.5 cents or 81.3% and Spider up 6.0 cents or 75%. Shares in each company had been trading between \$0.11 and \$0.14 from mid-March to April but had come under pressure, likely due to overall market weakness and a proposed share consolidation at Spider.
- We spoke to Wes Hansen, CEO of Noront Resources (TSXV:NOT), yesterday for his take on the deal (Noront has claims on an adjacent property in the Ring of Fire) and if Noront would take any action.
- Noront is not interested in chromite but focused on nickel and would not make an offer.
- As for the possibility of a white knight making an offer for Spider-KWG he thinks it would be unlikely because there is not much information available, including the lack of a scoping study, and there are considerable risks due to the remoteness of the deposit. If there was to be another bidder, he suggests it would have to be a large European or South African company.
- We feel the deal undervalues both companies; the offer was made when the shares were depressed and at \$0.13 this represents only about a 30% premium to the 60 day average of just over \$0.10 for either company. The fact that the market is bidding above Cliffs' offer price indicates a higher bid is expected.
- Due to the lack of any likely competitive offers, we think the merger has considerable value as it will prevent either party from being "left out" as any bid must be for 100% of the merged KWG-Spider – it will also give time to shareholders to evaluate any offer.
- Despite the Ontario government support the project would enjoy, the remoteness, as well as considerable infrastructure and capital expenditures required, means few companies could be a white knight. Xstrata looks to be a possible candidate and it could make sense for Xstrata, which owns ferrochrome operations in South Africa. (South Africa, which is the source of roughly 75% of the world's ferrochrome, has been dealing with a rail strike and problems with reliable electricity and pricing).
- Finally we feel the deal ignores the value of KWG's 1% net smelter royalty which covers the Big Daddy, Black Thor and Black Label deposits – based on our calculations we feel the NSR alone could be worth upwards of what Cliffs is willing to pay for both companies.