Clausi Takeover Targets: This week's rumours …

Takeover Rumours

Rumour: also known as gossip, loose lips, tittle-tattle, clamour, innuendo, speculation. Notice that it's not known as "investment advice".

Every day brings new takeover rumours. Some are true but won't play out. Some will develop into a takeover. Some are nonsense but are fun to repeat, like urban myths.

The amount of cash flowing into the miners adds to the corporate intrigue. Kirkland Lake Gold Inc. (and its new Chairman Eric Sprott) announced a bought deal for $25M and had to increase it to $30M to satisfy demand. The proposed use of proceeds is "general corporate purposes and working capital". In a healthy company like KLG, that could mean, "We're putting arrows in our quiver to go hunting."

Here are five of the rumours I heard this week:

- IAMGOLD is stalking Lake Shore Gold and is close to an offer;
- Pretium Resources is planning to diversify into underpriced copper projects in South America;
- a Chinese investment firm is buying any and all mothballed iron ore properties in North America that are at least at a Preliminary Feasibility Study stage;
- The Athabasca Basin overall is in play; and
- Miners with strong balance sheets are looking to the oil patch, recently bloodied and battered by Saudi Arabia's relentless production, for predatory diversification and a low-cost entry point to cash flow.

The easiest one is the **Athabasca Basin** rumour. The latest drill results and resource estimate from Fission Uranium Corp., together with Dev Randhawa's driving enthusiasm, make it a foregone conclusion that Fission will be gone within six months at a substantial premium over today's pricing. The smaller juniors in the Basin with weak management and no ability to raise capital on their own will be picked off, rolled up or joint ventured by the larger better companies. Management teams will be swapped out and new capital invested. A high tide there will likely raise all ships, just like the rush that carried new entrants into Ontario's Ring of Fire or at Ladyfern Reef. Phones are buzzing, investment bankers are stalking, and tongues are wagging. Likelihood of accuracy: 9.5 out of 10.

The risk to this playing out would be another Fukushima-type disaster crushing the spot price for uranium. Until then, let the bidding begin!

The **Pretium Resources** rumour (which I've heard twice, from distant sources) is goofy, but goofy enough to be true. It's like an urban myth. Last week Pretium closed another financing, this one for $18M. Pretium has historically focussed with unwavering vision on getting its massive gold Brucejack project in north British Columbia into production. Pretium appears to be on budget and on schedule.

Bob Quartermain, the highly respected CEO, led Silver Standard Resource Inc. for a 25 year period, during which he grew it from a small junior to a $2B company. He left Silver Standard for the Brucejack deposit. It would be a stupefying admission of failure to use that cash for purposes other than Brucejack. This rumour can't be true…

…but, copper has been pummelled down to less than $2.60 a pound, leaving de-risked deposits vulnerable. Pretium has cash, a strong technical team, and Mr. Quartermain. This could be a good opportunity for Pretium to diversify risk away from being a one-property company in harsh terrain. It would have to be a property in a geologic setting similar to that of north BC to get the Pretium team to even take a sniff.

Likelihood of accuracy: 2 out of 10.

Next up is a tough call. Is there a Chinese investment firm buying **mothballed iron ore properties** in North America?

Iron is the world's most commonly used metal (steel manufacturing). World production averages two billion metric tons of raw ore annually, with Vale being the largest producer. On the other end of the supply chain, China is the largest consumer and importer of iron ore. It would make sense for China to reduce costs by cutting out the middle-man and directly controlling foreign deposits. This could also give China a bigger influence on the spot price. Buying a portfolio of properties at the PFS stage would help de-risk the long-term capital outlay.

We know that China has cash. A great deal of Chinese capital has made its way to the Americas over the past several years, in all aspects of the extraction industries. China has a reputation for seeing past short-term bumps with long-term thinking.

Iron, like copper, is getting pummelled, down from $135 per dry metric ton in January, 2014 to a recent spot price of $68.The owners of iron ore projects are hurting. For example, the NYSE share price for Cliffs Natural Resources, the largest U.S. iron ore producer, is down over 60% over the past year. Things in iron ore are so bad that it was treated as great news when Cliffs sought creditor protection for its Canadian arm!

So all the theoretic elements seem to be in place for the China-eat-iron rumour to be true, but there hasn't been a recent independently verifiable fact to back it up. We would need a more specific indication of which targets are being examined before moving this up the reliability scale, or a more reliable indicator out of China. Likelihood of accuracy: 4 out of 10.

If China isn't buying iron ore, are miners with strong balance sheets looking to **diversify into the oil patch** for easy cash flow? We have seen this scenario play out before when oil was trading in the teens per barrel. In the late 1990's an entire public company could be thinly run on a well producing as little as 100 boe a day. (100 boe x 300 producing days x $2 netback = $60,000 cash to the owner). Legal, audit, transfer agent, stock exchange and related fees were much less than they are now. Today, the costs are much higher, requiring much higher production to achieve the same result.

2015 has brought massive cutbacks to O&G exploration budgets. Last week Total SA cut over three billion dollars from its global budget. Between global service firms Baker Hughes and Schlumberger, over 16,000 jobs have been cut.

The oil and gas companies, hurting from macro-economics changing too rapidly for them to adjust, run the risk of going into technical default with their banks. Some like Arcan Resources will have to propose drastic measures to stay alive. Those producers with decent assets will need stabilization capital, and that's where the cashed-up miners could come in.

I don't see miners taking over the O&G companies, but it is possible for there to be minority interest positions taken. A miner could then spin out the O&G assets into a newco on a re-organization to the benefit of shareholders. **Cash is king** and right now it's the gold miners who are able to raise it.

Likelihood of accuracy: 6 out of 10.

The last rumour is a persistent one. Is IAMGOLD stalking Lake Shore?

IAMGOLD is a mid-level multi-national gold producer with (as of Sept 30, 2014) over $4B of assets on its books, against

$1.3B of liabilities (in USD). Net cash from operating activities for the third quarter 2014 was $115 million during which it produced 225,000 ounces of gold. IAMGOLD recently sold its Niobec mine in Quebec for $500 million in after-tax proceeds. Management has indicated that it is looking to put its strong balance sheet to work on acquisition opportunities.

(In support of the here-comes-China rumour above: the purchaser of the Niobec mine was backed in part by CEF Holdings, a Hong Kong based investment company, and by Temasek, a Singapore-based investment company.)

At $3.30 a share, IAMGOLD is off its 52 week high of $4.80 but double its low of $1.60, with a market cap of about $1.2B.

Lake Shore Gold is in gold production and is also pursuing growth through three wholly owned, multi-million ounce gold complexes in the world-famous Timmins Gold Camp. It has two operating mines and of note a central mill. Production in the first nine months of 2014 totaled 142,500 ounces, at an average cash operating cost per ounce sold of US$588 and an average all-in sustaining cost per ounce sold of US$861. These numbers make Lake Shore an attractive target, especially with its stock down from its 12-month high of $1.40 to $1.07. Its market cap is about $470M, easily digestible by IAMGOLD.

Both IAMGOLD and Lake Share have assets proximate to Probe Mines' Borden Lake Deposit. It was this multimillion ounce deposit behind Goldcorp's recent acquisition of Probe last week for $526M. This is mining country.

Since Lake Shore and IAMGOLD operate in relative closeness in the same jurisdiction, an acquisition could eliminate some corporate duplications of cost, to the benefit of shareholders. This fact alone could drive a deal.

What might seal this deal could be IAMGOLD's Cote Gold deposit near Gogama, only 130 km southwest of Timmins. This puts Cote Gold less than 100 km south of Lake Shore's mill.

The updated mineral resource estimate from October, 2012 estimated Cote Gold's open pit mining operations to occur at about 60,000 tonnes per day of ore production. (The entire report should be read.)

If IAMGOLD were to buy Lake Shore, it could use Lake Shore's mill to process the Cote Gold ore. Highway 144 would provide reliable access for a steady stream of trucks rolling on down the highway. In this era of squeezing every dollar until the ink runs, filling and owning a functioning mill could accrue significant financial benefits to the IAMGOLD / Lake Shore shareholders. The lower cost of petroleum products adds to the attractiveness of trucking the ore.

This would have to be a friendly takeover. Things could get very ugly very quickly if it were anything other than a negotiated marriage.

Likelihood of accuracy: 7.5 out of 10, but I'm ready to move this to a 9 with any further rumblings.

Heard any good rumours lately?