

# Letter to the Shareholders of KWG Resources Inc.

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TORONTO, ONTARIO--(Marketwired - Jul 29, 2014) - [KWG Resources Inc. \(TSX VENTURE:KWG\)\(FRANKFURT:KW6\)](#)

Today the shareholders of [Cliffs Natural Resources Inc.](#) ("Cliffs") will elect at least four directors who are nominated by Casablanca Capital LP. We expect that this will usher in some change in how Cliffs will in future go about realizing on the value of its assets. This is therefore an opportune time to provide you with a status report on your company's initiatives. In the past these initiatives have often, of necessity, been in response to the actions of Cliffs and of the government of Ontario.

Minerals are governed by provincial law in Canada. Like most other jurisdictions in the world, Ontario makes it a condition of a mineral lease that further processing of what is mined must be completed in Canada. When it was announced that Ontario was negotiating terms to finance the construction of a road for Cliffs to ship chromite ore from the *Ring of Fire*, we reminded the Ministry of Northern Development and Mines that the use of KWG's claims for this purpose would need to comply with this "further processing in Canada" requirement of the law. The question of whether Cliffs may be granted an easement under the Public Lands Act over the KWG claims is still before the Courts. No matter how that question is ultimately decided, it will not alter the law's intent that our claims may be used to exploit minerals only if their further processing is completed in Canada. Letter To The Shareholders Of [KWG Resources Inc.](#)

In this regard, we are encouraged by the results of the ongoing testing of the direct reduction process that we acquired (the "**New Production Method**") and are making application to patent. Should we be able to commercialize the New Production Method it could very substantially reduce the cost of processing chromite ore into the metalized iron and chrome used in stainless steel making, by using natural gas rather than electricity. We hope to be able to do pilot plant testing of the New Production Method in the coming year, in advance of commercial reactor design and engineering.

We have previously indicated that slurring is an option that might be considered in the early years of mining at the *Ring of Fire* and the New Production Method has provided encouragement to further study this option. A slurry pipeline south and a gas pipeline north - to generate electricity at the site and for the nearby remote communities - is a development option that we have had scoped and that we have shared with the government. The pipelines go in the ground and under the rivers and don't need 98 bridges and culverts. The railroad that we studied prior to the Cliffs road proposal, may take some time to achieve social license and economic volumes from market share.

We also believe that a forestry road from Mishkeegogamang to Marten Falls, and then north across the Attawapiskat River to the *Ring of Fire* should be built first. It could connect Eabematoong, Neskantaga, Marten Falls and Webequie to the Pickle Lake highway and enable the supply of construction materials and equipment for the development of the *Ring of Fire*. It could be used to truck nickel concentrates out. A scoping study that we had completed suggests that the cost of such a road could be very reasonable when compared to the alternatives. This would seem to us to be a highly desirable initial investment to make to set the stage for development of the *Ring of Fire*.

We have also been very active in promoting the concept of using a transportation authority to finance and build this required infrastructure. We have proposed that the Ontario Northland Railroad be given a new lease on life by being part of this transportation infrastructure. It has the backbone of a rail network that can deliver material to the St. Lawrence River, eastern Canada's year-round access to world markets. Whether the agency is called a development corporation or a port authority is not terribly important. The governance structure is important.

Our proposed *Northland Development Corporation Act* creates a hybrid of the two and suggests what we

believe to be a productively constituted Board of Directors. We believe it to be fundamental that the First Nations and their neighbouring Northern Ontario municipalities, both large and small, actually have direction and control of this transportation and development authority. In the current financial environment of historically low interest rates, there would appear to be an opportunity for such an agency to issue bonds of perhaps 50 year maturities to raise the money to build the infrastructure.

We have also completed scoping studies of the possibility of starting mining in the *Ring of Fire* from underground rather than by open-pit operations. These studies determined that one large shaft could provide the means to mine both Noront's nickel deposit and our *Black Horse* chromite deposit.

Sincerely,

Frank Smeenk, President

**About KWG:** KWG has a 30% interest in the Big Daddy chromite deposit and the right to earn 80% of the Black Horse chromite where resources are being defined. KWG has also acquired interests in provisional patents including a method for the direct reduction of chromite to metalized iron and chrome using natural gas. KWG also owns 100% of Canada Chrome Corporation which has staked claims and conducted a \$15 million surveying and soil testing program for the engineering and construction of a railroad to the Ring of Fire from Exton, Ontario.

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*Should one or more of these risks and uncertainties, such as: the actual results of current exploration programs; risks normally incidental to exploration and development of mineral properties; the uncertainty of mineral resources estimates; uncertainties in the interpretation of drill results; the possibility that future exploration, development or mining results will not be consistent with expectations; the grade and recovery of ore varying from estimates; the general risks associated with the mining industry; the Corporation's inability to maintain its title to its assets; the Corporation's inability to obtain, maintain, renew and/or extend required licenses, permits, authorizations and/or approvals from the appropriate regulatory authorities and other risks relating to the applicable regulatory framework; environmental damages and the cost of compliance with environmental regulations; environmental risks; adverse land claims from First Nations groups or other parties; lack of adequate infrastructure; a lack of support from the Ontario government and federal government for the development of the Ring of Fire area; the patents to be used to support the commercialization of the New Production Method will not be granted; capital and operating costs varying significantly from estimates; the risk that slurrying is not a viable option for the development of the Ring of Fire; costs of construction of a proposed road varying significantly from estimates; the inability to develop and/or complete the construction of a proposed railroad, permanent amphibious aerodrome together with an adjacent and permanent all-weather runway and heliport terminal; slowing demand for ferrochrome products; adverse general market conditions; inflation; changes in exchange and interest rates; adverse changes in commodity prices; the impact of consolidation and rationalization in the steel industry; competition; risk that amendments to current laws, regulations and permits governing operations and activities of mining companies will have a material adverse impact the Corporation; the risk that the New Production Method does not prove efficient or economical; intellectual property litigation; the risk that occur or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, or expected. We do not intend and do not*

*assume any obligation to update these forward&#8208;looking statements, except as required by law. Shareholders are cautioned not to put undue reliance on such forward&#8208;looking statements.*

**Shares issued and outstanding: 777,512,273**

## Contact

Bruce Hodgman  
Vice-President  
416-642-3575  
info@kwgresources.com

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