

# Growth Stocks Weekly

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**Performance:** 1996 116.9%; 1997 28.1%; 1998 36.4%; 1999 39.4%; 2000 180.9%; 2001 -50.5%; 2002 18.7%; 2003 28.8%; 2004 166.7%; 2005 28.2%; 2006 153.3%; 2007 8.8%; 2008 -25.2%

## Junior Gold and Natural Resource Sector Report

June 15, 2008

### Gold Wheaton Gold Corporation

(trading as Kadywood Capital - KDC.H-TSX Venture)



**Daily chart, Semi-log Scale, High C\$1.25, Low \$0.32, Last Trade \$0.90**

**Kadywood Capital (KDC.H-TSXv)** starting trading on Friday with a new life as the future **Gold Wheaton Corp.**, following the announcement of its first two transactions to acquire by-product gold and precious metal streams from producing and developing mines.

This deal was put together by the same team who brought us the original Wheaton River Minerals, which ended up part of Gold Corp., a big win for shareholders and our subscribers. One of the spin offs of the original Wheaton was Silver Wheaton. Silver Wheaton has been very successful as a silver “streaming” company. Similar to Silver Wheaton, Gold Wheaton won't produce metals but will rather buy production streams from miners at a large discount.

To kick start the company, Gold Wheaton will acquire half of the contained gold, platinum and palladium in ore mined and shipped from FNX's mining operations in Sudbury, Ontario, in a \$400-million cash-and-stock deal. FNX will hold more than 43 per cent of Gold Wheaton, thereby participating in the future success of the model.

In addition to the FNX deal, Gold Wheaton will buy all the gold production from Redcorp Ventures' Tulsequah Chief Mine in B.C., paying US\$90 million plus US\$400 per ounce produced.

Gold Wheaton's board will include Frank Giustra, a founder of Wheaton River Minerals; FNX CEO Terry MacGibbon; and Francesco Aquilini, whose holdings include the Vancouver Canucks NHL team. The company's chairman and CEO is David Cohen, co-founder and chairman of Eastern Platinum Ltd. and former CEO of Northern Orion Resources Inc. Ian Telfer, who teamed up with Giustra in the past to launch Wheaton River Minerals and Silver Wheaton, recently bought 10.3 per cent of Kadywood in a private placement.

Gold Wheaton plans a C\$200-million equity raise at \$0.50 per subscription receipt. Following the completion of the FNX Gold Purchase Transaction, and assuming completion of the equity financing, Gold Wheaton will have approximately 808 million common shares outstanding (on an undiluted basis) of which approximately 43% will be held by FNX and 11% by insiders.

Gold Wheaton expects to purchase 30,000 ounces of gold production in 2008, growing to 162,000 ounces in 2010, to average 100,000 ounces per year over the next 10 years.

Kadywood Capital Corp. intends to change its name to Gold Wheaton Corp. with shareholder approval and expand its board of directors to six persons.

### ***A Proven Formula***

The business model fairly simple, and one that has proven successful. As a "streaming" company it provides up front cash to mining companies – often to help them fund development or to increase production. The funding company buys the future production streams at a fixed price discount up front from the mining company, well below the market rate, and sells the metal at market prices in the future, providing positive cash flow with leverage to increasing metals prices. Additional hedging and sophisticated market offset transactions are often used to protect the downside. The mining company gets the benefit of cash up front without having to incur dilution to its existing shareholders, and avoids having to take on debt and its restrictive covenants.

The streaming company benefits from increasing production without any outlay for capital costs. In the case of Silver Wheaton, they are projecting silver sales of between 13 million and 15 million ounces in 2008, increasing to 19 million ounces in 2009 and 25 million ounces in 2010, without any capital expenditures necessary to generate that growth. Gold Wheaton should see a similar growth profile.

Gold Wheaton will be the first primarily gold by-product stream purchaser in the world. This comes at an opportune time, with many companies developing mines facing runaway capital costs. We saw this recently with European Minerals, Geovic Mining and the high-profile Galore Creek project.

"We're getting involved in a structure where we have a fixed-cost base," David Cohen, the company's chairman and CEO, said in a conference call Friday. "In this inflationary time, that's something that everybody's concerned about: cost running away with themselves on the operating side and on the capital side." Operating costs for miners have surged driven by fuel, commodity and labour inflation. "We've fixed ours. We've got no exposure to runaway capital costs in this business anymore," Cohen said.

Early investors of Silver Wheaton have done exceedingly well. After closing at \$4.80 after its first day of trading in October 2004, the stock saw a high as \$19+ just this spring.

With similar management, financial advisory services and business model being applied to the gold market that Silver Wheaton has used for silver streaming over the last four years, investors may anticipate similar triple digit performance with Gold Wheaton.

### ***Management***

Gold Wheaton's board will include David Cohen as Chairman. He's the former President and CEO of Northern Orion Resources, one of our previous winners; Frank Giustra, founder of Wheaton River Minerals and Lions Gate Entertainment, has put together a number of very successful resource companies. Giustra is currently President and Chief Executive Officer of Fiore Financial Corporation and was former Chairman of Endeavour

Financial and Yorkton Securities Inc. He was also recently behind the creation of company Peak Gold that of late announced a 3-way merger with Metallica Resources and New Gold, creating Canada's newest intermediate gold producer. Mr. Giustra currently holds in excess of 10% of Kadywood Capital outstanding shares, according to SEDI filings. Terry MacGibbon, Executive Chairman of FNX Mining, is a registered professional geologist with over 35 years of international experience in the mining business, and a director of several Toronto Stock Exchange listed companies. Francesco Aquilini is Managing Partner of Aquilini Investment Group, a private real estate investment firm with diverse holdings that include the Vancouver Canucks NHL franchise. Ian Telfer, who teamed up with Giustra in the past to launch Wheaton River Minerals and Silver Wheaton, bought 10.3 per cent of Kadywood in a private placement in April.

### ***The First Deals***

Gold Wheaton's first transaction included an agreement to purchase 50% of the contained gold, platinum and palladium in ore mined and shipped from certain of the existing mining operations wholly-owned by FNX Mining Company Inc.

The mining operations include: (i) PM and 700 Deposits at the McCreedy West Mine; (ii) the Levack Footwall Deposit, Rob's Zone and 1900 Zone at the Levack Mine; and (iii) the 2000 and North Deposits at the Podolsky Mine. The transaction will cost Gold Wheaton C\$400 million payable in cash, common shares and warrants, and the lesser of: (a) US\$400 per gold equivalent ounce, subject to an inflationary adjustment three years after the anniversary date, and (b) the then prevailing market price per ounce of gold.

The C\$400 million will be satisfied by the payment of C\$175 million in cash, the issue of 350 million Gold Wheaton common shares at C\$0.50 each, valued at C\$175 million, and C\$50 million payable six months following the closing of the FNX Gold Purchase Transaction. The C\$50 million will be settled via the issuance of Gold Wheaton warrants on the same terms and conditions as the warrants to be issued in the equity financing referred to above.

The second transaction included an agreement with Redcorp Ventures where Gold Wheaton agreed to purchase 100% of the life of mine payable gold production from Redcorp's Tulsequah Chief Mine located in British Columbia and any other mines within a defined project area. Redcorp is currently constructing its Tulsequah Chief Mine and the mine is expected to begin production in latter half of 2009, producing approximately 50,000 ounces of gold per year. This transaction will cost Gold Wheaton US\$90 million plus US\$400 per ounce produced, subject to an inflationary adjustment. The upfront payment to Redcorp will be payable US\$10 million on receipt of the required material environmental and operating permits, with the balance on a drawdown basis once Redcorp has expended all funds (other than US\$80 million) required to complete construction and commissioning. Gold Wheaton will also pay an ongoing per ounce payment to Redcorp equal to the lesser of (a) US\$400 per ounce (subject to an inflationary adjustment in the fourth year after production commences) and (b) the then prevailing market price per ounce of gold. Gold Wheaton will not be required to contribute to any capital or exploration expenditures in respect of Redcorp's mining operations, over and above the upfront payment.

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Current Price: C\$0.90

52 Week Range: C\$0.32 - C\$1.25

Pro Forma Shares O/S: 808 million basic

Pro Forma Shares O/S: 1,058 million fully diluted

Pro Forma Market Cap: C\$727.2 million

Pro Forma Cash on hand: C\$20 million (post financing and FNX)  
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### ***Financing***

Gold Wheaton's intends to raise a C\$200 million equity financing on a best efforts basis, by engaging Paradigm Capital Inc., as lead agent, together with Canaccord Capital Corp. and GMP Securities L.P. as co-bookrunners and a syndicate including BMO Capital Markets and Brant Securities Limited. The company expects to sell 400 million subscription receipts to raise the C\$200 million at a price of C\$0.50 per subscription receipt. Insiders have committed to purchase over C\$30 million of the offering. Each C\$0.50 Subscription Receipt will entitle the holder to acquire one Gold Wheaton common share and one-half of one common share purchase warrant of Gold Wheaton, without payment of additional consideration. Each whole Gold Wheaton warrant will be exercisable for one Gold Wheaton common share at a price of C\$1.00 for a period of five years after the closing date. The offering is expected to close on or about July 8, 2008, and may be difficult to participate in without good connections.

## **Conclusion**

Gold Wheaton is currently trading as Kadywood Capital. We commenced coverage with our April 21, 2008 Editor's Comments email, and subsequently disclosed the intention and ultimate accumulation of 250,000 shares at an average cost of \$0.33 per share, mostly while Kadywood Capital was still trading as 222 Pizza (the name was changed April 30<sup>th</sup>).

What first got our attention was 222 Pizza's April private placement consisting of shares and warrants. Mr. Giustra and Mr. Telfer loaded up on units in the shell at 5 cents each. Mr. Giustra personally subscribed to 1.8 million units and personally held 4.6 million shares. Including the holdings of his charity arm, the Radcliffe Foundation, Mr. Giustra controlled about 23 per cent of the shell at the time. Mr. Telfer bought six million units at 5 cents each, representing 10 per cent of the company. Gold Wheaton is granting up to 18 million stock options to directors at 59 cents each.

This management team can build a successful gold streaming company. The business model is already proven and in place with the very successful Silver Wheaton. Gold Wheaton already has an immediate and growing cash flow plan in place just with their first two initial transactions. Gold Wheaton will complete a minimum C\$200 million equity issue and expects to purchase 30,000 ounces of gold production in 2008, growing to 162,000 ounces in 2010. These two initial transactions should result in Gold Wheaton's annual production averaging approximately 100,000 gold equivalent ounces for the next ten years, representing potential average free cash flow in excess of \$45 million per year assuming \$850/oz gold, or 4.5 cents per share.

It is likely that this is just the start however, and a fast growth strategy will be executed. Cohen says he is "stunned" by the possibilities of Gold Wheaton, and is confident he can build the company quickly through future by-product deals. "Every guy who produces gold as a by-product is a potential counter-party for us. Every single one. You look at it, and you just can't build businesses this quickly. It's incredible," he said in an interview.

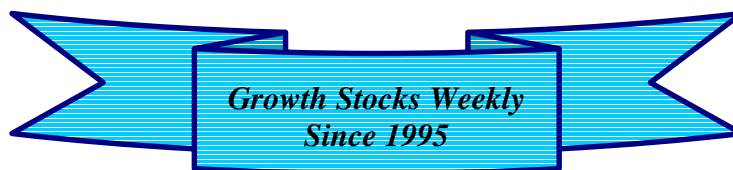
Once Gold Wheaton completes the funding and closes the transactions, and given the caliber of management team and history of success, analysts and newsletter writers will be all over this story, similar to the roll out of Giustra's other recent creation, Peak Gold (PIK-TSXv), soon to be merged into New Gold (NGD-TSX).

A Gold Wheaton investor presentation that can be found on [www.goldwheaton.com](http://www.goldwheaton.com)

Gold Wheaton hosted a telephone conference call on Friday June 13 to discuss the Gold Purchase Transactions. The conference call is archived for playback until Thursday June 19, 2008 and can be accessed by dialing 604-638-9010 or 1-800-319-6413 and using the pass code 3504 followed by the number sign (#).

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