



Strategic Natural Resources hasn't been hanging around, and over the last nine months, it has made substantial progress in developing a coal mine and negotiating with a power generation company that wants to build a power station at the mine mouth.

On listing, SNRP, through its 90% owned subsidiary Elitheni Coal (pty) Ltd, owned 9,000 hectares of coal prospecting licences near Indwe in the Eastern Cape, South Africa. The two areas that made up this prospect ("Phase 1" and "Phase 2") contained a resource of approximately 15 million tonnes of coal. Drilling has raised the resource briskly to approximately 40 million tonnes with over 15 million tonnes converted to reserve status. Yet only a little over 1,000 hectares, approximately 7% of the area under licence, has been drilled. In fact, Elitheni Coal has been granted rights for coal exploration over a new prospect ("Phase 3") – another 16,000 hectares also near Indwe bringing the total area so far to approximately 26,000 hectares.

The main customer for Elitheni Coal will be a scaleable electricity generating plant, starting with a 250MW unit located at the mine mouth. This plant will be developed, owned and operated by Elitheni Clean Coal, which is owned by Independent Power of Southern Africa (IPSA) and Exodus Africa. Coal from Elitheni will also supply another planned IPSA development near East London (that's East London in South Africa) plus the local brick making and metallurgical markets, and also supply domestic coal locally.

Originally, the electricity generating plant was to supply 500MW, but as Elitheni Coal quickly increased its resource to 40

million tonnes from drilling only a very small part of its exploration area under licence it seems highly probable that the eventual coal reserves could be greater than the 120 million tonne target. Accordingly, Elitheni Clean Coal has resolved to fast track a 250MW power plant at Indwe, and add further blocks of 250MW as the coal resource confirmation justifies it. IPSA is currently in negotiations over equipment suitable for the first clean coal block for Indwe.

Electrical shortages are a feature of domestic and working life in South Africa and the price of the republic's main power source for generating electricity is rising with Eskom - the state owned electricity generating behemoth - reporting a 30% increase in coal costs during 2006-07. Eskom's power stations are located close to Johannesburg in the north eastern part of South Africa. So electricity has to be pushed down thousands of kilometres of power lines to the south of the country, losing power on the way. This results in blackouts and shortages in the Western and Southern Cape - which is at the end of the line. Elitheni's coal prospect is in the Eastern Cape, approximately 900 kilometres south of Johannesburg so it's near a market that is short of electricity and Elitheni's coal is well suited to "clean coal fluidised bed boiler systems" – in practical terms, this means that Elitheni's coal may soon be supplied to the first fossil-fuel power station in South Africa to meet World Bank emission standards.

When the South African government decided to clean up its electricity generation act, the plan was to de-regulate and privatise the industry as a way of moving towards meeting its Kyoto obligations.

However, most of Eskom's power plants are so old and dirty that no private company would take them off the government's hands - the amount of money required to clean up their emissions would be more than the business would be worth. So the government decided to ban Eskom from building any more generating plants and encourage new, privately owned power companies, which must operate in line with newer, stricter regulations on carbon emissions. This chain of events has led to the much publicised power shortages in South Africa in recent months. Several of the world's most important platinum mines were forced to temporarily shut down, sending prices soaring. The difficult situation that South Africa finds itself in now is not going to disappear shortly either – Eskom has stated it will take 3-5 years to increase capacity and power output to meet demand. This puts companies like Strategic Natural Resources in a unique position to help fill the gap for sources of coal to meet power plant demand.

Founder of Elitheni Coal, Barry Nel, is now also Commercial Director of SNRP and Chairman of Elitheni Coal. He founded Trans Tugela Coal, which captured 35 per cent of the Natal industrial coal market. He also founded Coalnet, which concentrated on joint ventures with coal users, and amongst these was a JV between Coalnet and Vakbel of Turkey, which exported 2.5 million tonnes of coal to Turkey. Richard Latham, Chairman, is also Chairman of Northern Petroleum and a former investment manager who has worked with upstream oil and gas companies. Jeremy Metcalfe, Chief Executive, is former chairman of Minmet and was previously involved in establishing Golden Prospect



Strategic Natural Resources

A coal mine with a customer on the doorstep

since renamed Ambrian Capital and Tiger Resource Finance. Peter Earl, Non Executive Director, is founder of the Independent Power Corporation and also a founder and Executive Director of IPSA. Peter is a former deputy chairman for the United Nations Economic Commission for Europe infrastructure finance group. He has advised on acquisitions and bids totalling approximately US\$6 billion, involving 5,000MW of generating capacity. Directors are included in the list of significant

shareholders in SNRP with Barry Nel owning 26.92%, Richard Latham 4.23%, Jeremy Metcalfe 4.24% and Peter Earl has been increasing his stake steadily, and now holds 6.55%.

The Indwe area has a history of coal mining and the local municipality supports the mine and power station development. The first coalmines near Indwe were opened before the turn of the last century and coal output from these mines reached a peak in the early 1900s with production at around 176,000 tonnes per annum. (It should be noted that the Indwe coal is a narrow seam deposit where mining techniques at that time had not been fully developed. With the advent of modern mining methods narrow seams no longer present any major mining problems) However, with the discovery of large seam deposits of coal in the former Transvaal and Natal Provinces, production gradually declined and ceased in 1948.

SNRP has completed an application to South Africa's Department of Minerals and Energy to get down to mining the first 5.5 million tonnes of coal. The application has been accepted and it is anticipated that extraction rights will be granted, subject to an environmental impact study. Placing of 26% of Elitheni shares into the hands of Black Economic Empowerment shareholders is complete. Elitheni is a couple of miles from the Doringrivier Dam which holds 20 million cubic metres of water and the company is registered under the South African

National Water Act, entitling it to water usage for prospecting activities. A different licence will be required for mining and making steam, although this is not thought to be a major hurdle.

So Strategic Natural Resources has the right kind of coal, it has a market for the coal, and has directors on board who have completed similar projects before. The South African economy looks relatively healthy and is short of electricity, and the South African Rand, following a period of weakness, has stabilised and regained ground. How often do you get the opportunity to buy into a developing coal mine that could be, in twelve months or so, supplying "clean coal" to a bespoke power generation business built right on its doorstep?

“ Strategic Natural Resources has the right kind of coal, it has a market for the coal ”

COMPANY INFORMATION

Name Strategic Natural Resources Plc

Market LSE

CEO Jeremy Peter Metcalfe

Sector Mining

Ticker SNRP

Share Price 35p

Shares in Issue 65m

Market Cap. £22.75m

1 Year Range  37.5p 31p

