

Nkwe shortens the odds on platinum mining with Xstrata partnership

THERE are many juniors who would give their right arm for a well-funded partner in the current economic climate and Nkwe Platinum has found one in the form of Xstrata.

In signing a joint venture with Xstrata for a 50% option in five PGM projects – collectively, the farms Hoepkrantz, Nooitverwacht, Eerste Geluk, Garatouw and De Kom – that are situated on the Eastern Limb of the Bushveld Igneous Complex in South Africa, Nkwe and its black economic empowerment partner (BEE), Genorah Resources, have pulled off something of a coup.

The deal provides the partners with US\$10 million of immediate funding plus Xstrata's expertise to take the project through to the completion of a bankable feasibility study (BFS) in about a year's time. If, at that point, Xstrata decides to take up its option, they will spend an estimated US\$1.5 billion on developing two mines and a concentrator – with Nkwe retaining a 50% share in the project.

"The deal means that we will jointly develop to BFS without paying for any of their input," says Nkwe director Peter Landau. "Xstrata is a strategic partner that can help us to develop our key assets and provide us with numerous opportunities going forward."

If it goes the full distance – and there is no reason to believe it will not at this stage – the deal could propel Nkwe towards its ambition of becoming a 500,000oz/y, top-five, vertically-integrated, platinum producer.

"The focus of the BFS is on 1Moz/y of PGM production," explains Mr Landau. "That would definitely put the project in the top five and give us one of the biggest stand-alone PGM operations in the world."

Like any ambitious team, Mr Landau, Nkwe's managing director Maredi Mphahlele, and the rest of the company's management, are holding on to their hats and rightfully feeling pleased with themselves for securing such a positive focus in the current climate. While the price of platinum may have fallen significantly – around US\$1,250/oz at the time of writing – and demand in the automotive sector is continuing to weaken, the fundamentals for both the joint venture and the company as a whole still look sound.



De Wildt trench and NKWE geologists (inset)

THE TEAM

MAREDI MPHAHLELE Managing director

Maredi Mphahlele holds a degree in mineral resource management and a diploma in mine surveying from Witwatersrand University. He gained considerable investment and project finance experience while employed as business analyst at the Industrial Development Corporation of South Africa. Mr Mphahlele sits on the board of various engineering, trading and mining companies. He is also a member of the business advisory team that is tasked with implementing industrial, agricultural and mining businesses for the Mphahlele area in Limpopo Province in the northern part of South Africa.



TONY WEBER Executive director

Tony Weber is a mining engineer with more than 10 years' operational experience in relation to a number of commodities, including platinum, at Anglo American. He has significant experience in concluding large feasibility studies in precious and base metals, and in the implementation of mine expansion and upgrading of several mining projects.

PETE LANDAU Director

Pete Landau is a corporate lawyer and corporate advisor, having previously worked with Grange Consulting Group, Clayton Utz and as general counsel

at Co-operative Bulk Handling. Mr Landau is responsible for providing general corporate, capital raising, transaction and strategic advice to numerous ASX-listed and unlisted companies. He has project managed a significant number of mining exploration and development transactions, including capital raisings, M&A, joint ventures and financings. Mr Landau is a director of a number of ASX- and AIM-listed companies, with particular focus on mining, oil/gas exploration and development in Australia and Africa. Mr Landau is also a director of Range Resources Ltd, Continental Capital Ltd and Cape Lambert Iron Ore.



De Wildt drilling



Drill rig at De Wildt

As Mr Landau points out, the base case for a project like Tubatse/Garatouw is still way below the current basket price of PGMs while medium/long-term demand in the automotive and jewellery sectors looks strong. "If you even took the average basket price of platinum-palladium-rhodium today, you would have an extremely robust model going forward," says Mr Landau. "People were opening platinum mines eight years ago when the price was only US\$450/oz."

The next year or so will be an interesting one for the company. Clearly, new production out of South Africa is a key factor for the platinum market going forward. The Bushveld currently hosts 80% of the world's platinum, and Xstrata knows that its US\$10 million will be money well spent simply to discover whether there is a critical resource to be extracted from Garatouw.

Crunch time will come towards the end of 2009 – perhaps a little later – when the BFS is completed and Xstrata will have the right to exercise its option. By this time the world may have eased its way out of the current financial crisis and demand for platinum could be motoring – quite literally as car ownership in China and India continues to climb, and the cost of fuel and

concern for the environment drives up platinum-loaded diesel sales. Mr Landau notes particularly strong potential in the US market, where diesel currently only accounts for around 5% of car ownership.

While any mining operation would be unlikely to reach full production for a number of years, the focus of the BFS, according to Nkwe, will be to generate cost-effective, early cashflow from shallower operations on Tubatse's Merensky reef, while deeper, underground shafts are developed to the north.

With the current, JORC inferred resource of around 40Moz PGM indicating a mine life well in excess of 40 years, Nkwe and Xstrata are keen to assess various smelting and refining options as part of the BFS. The idea here is to deliver downstream value in line with Nkwe's vertically-integrated ambitions, making the presence of a well-connected, battle-hardened partner like Xstrata even more important.



From Xstrata's perspective, the joint venture provides an opportunity for the company to establish itself in the highly-prospective Eastern Bushveld and consolidate a position in the world's top two PGM producers.

Another plus for both parties is the Nkwe connection with Genorah Resources, which currently has a 35% stake in Nkwe, which will rise to 60-70% if there is a decision to mine. "The challenge," says Mr Landau, "was to develop the Nkwe farms as quickly as possible and Genorah was able to fast-track these projects through BEE."

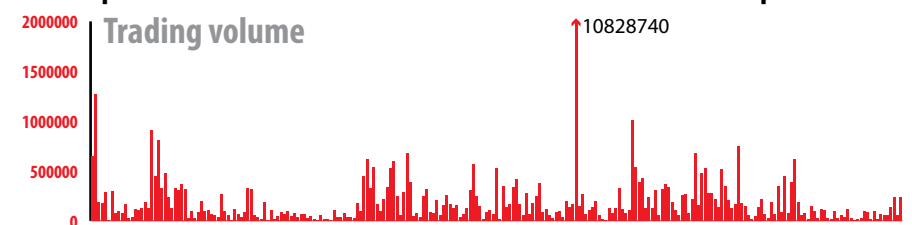
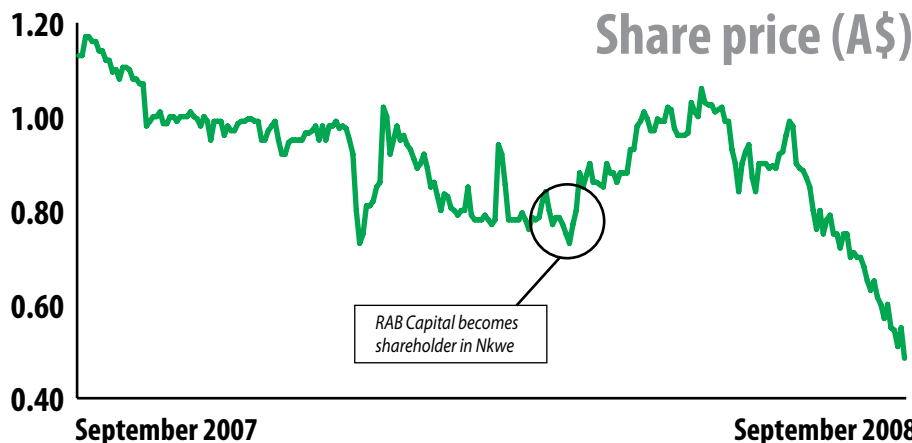
In a recent, positive research note on Nkwe, RBC Capital Markets highlighted the power and water situation in South Africa as key constraints on the project, although there are two important reasons why this should not be a major problem in the future.

Firstly, South Africa has been well aware of its energy shortfall, and there are a number of new coal and hydroelectric power stations coming onstream that should provide sufficient energy for the operation as demand increases. Secondly, there is the option of self-generating, as well as using, existing Xstrata infrastructure during the commissioning period.

Power and water will continue to be issues for intensive users operating in South Africa, but the joint venture looks well set to cover this issue.

Assuming the road to BFS is a reasonably smooth one over the next year or so – "and we're just ticking the boxes as we go forward", says Mr Landau – then there is no reason why the parties should not consider other opportunities, particularly as Nkwe is able to confirm an expanding resource on its land holding.

"Xstrata has announced its intention to become a major platinum producer," says Mr Landau, "and the resource we hold is, without doubt, an important component in achieving their goal."



VITAL STATISTICS

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SHARE INFORMATION

Listed: ASX (JSE and AIM listing planned towards the end of 2008)
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