

SXR URANIUM ONE CEO WANTS A THIRD U.S. URANIUM ASSET IN 2006

Looks to Merge with a Quality US-Based ISR Company

By James Finch

Soft-spoken SXR Uranium One Chief Executive Neal Froneman is very polite. When we phoned him at his home in South Africa, early last Thursday morning, he patiently answered his first question before telling us he had just stepped out of the shower. We paused for thirty seconds as he reached for a towel. For the next hour, Froneman serenely, but methodically, responded to every question posed to him about his big splash into the U.S. uranium market. Our conclusion: He has very good manners; oh, and by the way, he means business.

Right off the bat, we challenged the 46-year old Froneman about his buying spree: Rangold, Sweetwater, Green Mountain and US Energy's uranium assets. Has he had enough for now, or is he still looking? "These are not transactions that are being opportunistic," he told us. "They have been transactions that are being done according to a well-thought out strategy. Specifically in terms of the U.S., we have acquired what we would like to acquire to gain a solid position in the U.S."

But is he still looking? "We are looking now at the type of acquisition that would bring with it a good technical team," Froneman explained. "Of course, we have got a lot of guys on our radar screen at the moment." Really, like whom we wondered? Names were tossed out, rapid fire - Energy Metals, Strathmore Minerals, UR-Energy and others.

Cautiously, Froneman gave us clues, "I think we are looking for assets that are being developed by good U.S. technical teams. There are a number of companies - some of them that you mentioned that are obvious or logical targets." But nothing is carved in stone, as he added, "We remain very open-minded. We would like to work together with other U.S. entities. That is a process that will unravel."

Asked if we should expect one more splash in 2006, Froneman responded, "I do believe that we should probably do one more transaction." He then defined his terms and what he expected in a potential candidate, "That transaction is very much going to be focused on getting a good skills base. And, of course, it will come with good assets. We are particularly interested in people that have taken their projects forward." We knew our earlier guessing wasn't far off the mark, as Froneman said, "I think you have a good understanding of who the appropriate players are. We are, at this stage, an advanced development company that very shortly will be a uranium producer as well. We have to ensure that we merge with companies that have similar qualities."

Later in the interview, as we compared ISR uranium operations against the benefits of hard rock mining, Froneman remarked and provided another hint, "It would be very nice to merge with a good quality ISR company in the U.S." Talking further about the ISR method, he admitted, while dropping a few more clues, "We just don't have any properties in the U.S. that are ISR. There may be one or two opportunities, but it is not something we specifically are try-



Neal Froneman hasn't finished his U.S. buying spree; still looking for at least one more U.S. uranium company, perhaps two.

Photo Courtesy of SXR Uranium One.

ing to acquire. Of course, through these potential future mergers, we may become a significant ISR producer as well."

ISR versus Hard Rock Mining

We talked about the Sweetwater Mill, which he informed us would use a solvent extraction circuit, not an ion exchange for stripping resins as would be found with an In Situ Recovery (ISR) operation. Does that rule out ISR? "No, not at all," he told us. Froneman referred to the ISR method in a way we've not heard it previously described, "ISR is an elegant way of extracting uranium." That's a step up from being called a 'water treatment plant,' as some refer to ISR. But, he feels ISR is limited from a growth point of view. "In terms of the growth that we can expect, due to the increase in the uranium price, underground and open pit mining has to feature a lot more now," he pointed out. "That is exactly where we have our core competency."



SXR Takeover Candidates must have Wyoming properties, a good technical team, similar qualities to SXR and ISR amenable properties. Who's next?

Perhaps SXR's focus on the company's core competency is what led to this past January's speculation that the company's Honey-moon in-situ leach operation in Australia would be sold to interested Chinese parties. Froneman responded quickly with a news release, announcing, "The talks were not conclusive, and as far as Uranium One is concerned, Honey-moon is a core asset of our global company and is not up for sale." He told us, "We do have an ISL mine in Australia. It's not that we don't have ISL skills, but it's not something that I would promote strongly as one of our core competencies."

At heart, he is a hard rock miner, through and through. Froneman doesn't dislike ISR, "We could get more upside in open pit and underground mining, but we remain well aware of the benefits of in situ leaching." As Patrick Drummond, plant superintendent for Cameco's Smith Ranch told us, in situ uranium recovery is just not mining as he knows it from his coal mining days in Scotland. Froneman and Drummond are of like minds in that respect.

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From humble origins with an in situ recovery operation in Australia called the Honey-moon. This may be an apt description of the market's affections toward Neal Froneman's recent uranium deals. Photo Courtesy of SXR Uranium One.

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Turnarounds & Challenging Mines



Will the Shootaring Canyon Mill become yet another challenging problem for Neal Froneman to solve? Photo Courtesy of SXR Uranium One.

What then would be included among the company's core competencies? Froneman comes to SXR with bachelor's degrees in mechanical engineering and accounting, arriving in his current position by way of executive positions at Harmony, JCI and Goldfields. He is known for taking on difficult projects, such as the Kloof un-

derground gold mine about 60 kilometers outside Johannesburg. Assigned to turnaround the underperforming Goldfields asset, Froneman delivered a 40-percent increase in productivity and cutting unit costs by 13 percent. Along with increases in the gold price during that time frame, profits doubled.

Kloof wasn't the first time Froneman faced a challenge and executed. He had delivered similar results for Harmony Gold, after the company acquired the Grootvlei and Modderfontein gold mines in 1997. As executive director for operations, Froneman slashed costs on the East Rand operations by more than 30 percent and doubled productivity. Revamping the high cost operations into one which was more efficient led to Harmony's acquisition of low-producing Evander. Again, Froneman faced the challenge of transforming yet another high-cost operation into a profitable one. Within two years, he made the mine profitable by slicing expenses, increasing efficiency and getting more gold out of the ground.

Froneman seems to also have a knack for timing. He quickly jumped in and out of JCI, in early 2002, when he disagreed with "certain governance issues." His decision led him to Aflase by April 2003. Just as the uranium sector was beginning to heat up, he engineered a reverse takeover of Southern Cross Resources, combining Aflase Gold and Uranium Resources Limited, into SXR Uranium One. Systematically since then, he has begun building a multi-national conglomerate with operations to mine in Australia, South Africa and the United States. The company's share price has more than doubled since January, and held up strongly in the midst of the temporary price correction of uranium stocks.

A Preference for Underground and Open Pit



Underground mining is dirty work. Recruiting labor could become a challenge. Photo Courtesy of Charles Don Snow.

Another core competency is underground mining. "I think the majority of the deposits we are looking at are underground," Froneman explained. "There is some open pit potential. Of course, that is a skill that we have. Most of the prospectivity that we are looking at is underground."

Make no mistake about the company's plans. SXR's Chief Executive is a strong advocate for conventional uranium mining. "The growth is really going to come through underground and open pit mining," Froneman revealed. "As the uranium price goes up, the resources that become available are mainly in the open pit and underground environment." Again, he politely derided non-conventional mining, "In fact, actually ISR (resource recovery) decreases."

Unabashedly, Froneman boasted, "We are proud of being underground miners. It's a skill we've developed over many years." When we explained that local and county officials in Grants, New Mexico were more eager for the jobs underground and open pit mining would create, Froneman responded, "I do think it will come back, and of course, people always want the management jobs in mining companies."

His biggest concern may be recruiting labor. "We have to find the people to do the underground work," Froneman told us. "That is going to be a challenge, but I do believe it'll change." Our investigation, this past winter in Wyoming, discovered SXR may have to compete with Wyoming's coal mines and others for workers. We reported Wyoming's Secretary of State Joe Meyer advising uranium companies to bring their own workers. In our Wyoming Series, Part 2, Meyer said, "We have an incredible shortage of construction workers right now. Construction projects are coming in 35 to 40 percent overbid, because there is so much work, no one can handle them." Wyoming Mining Association spokesman Matt Grant echoed those remarks, explaining how various chambers of commerce and other civic groups were trying to recruit unemployed automobile workers from as far away as Flint, Michigan.

Wyoming's Green Mountain Properties



Green Mountain has no hard rock core but was formed from sediments eroded from the much older Granite Mountains just to the north. Green Mountain has a long history of mineral and other resource production. Wyoming's first uranium mill was established in the area in the 1950s.

One of the reasons ISR operations have become more popular is because their capital and operating costs are significantly lower than those for conventional mining. Less money required to start up; less labor intensive to operate an ISR facility. There are some industry insiders who believe the all-in expense of an underground mining operation could reach \$60/pound, while others argue properties with higher grades, and with less complication operations, could mine at \$40/pound or lower. How does Froneman feel his company's Green Mountain properties would fare? Will the Jackpot deposit come in for less than \$60/pound? "Certainly, we believe it will," he quickly responded. "Our models indicate that." But he qualified his projections by saying, "That is something that we will

confirm through the due diligence.”

Part of the production decision will include how to approach the underground mining of the Jackpot deposit. “Mechanized mining is obviously very efficient from a productivity point of view, but it is very expensive,” warned Froneman. “We’re not afraid of using labor-intensive mining methods if that’s the right cost-efficient way. These are the challenges we’re going to have to address in the United States.” He added, “If your mine can only sustain a cost profile of \$20-\$30/pound, you have to find a mining method that works.”

Another problem we brought to his attention, after our interview, were comments made by Rick Chancellor, Administrator of the Land Quality Division for Wyoming’s Department of Environmental Quality (DEQ). Chancellor would have to sign-off on SXR Uranium One’s permits before the company could begin mining uranium at Green Mountain. Chancellor told us that Wyoming DEQ would have to approve the previous permit held by Rio Tinto. “I doubt the current permit will be acceptable,” he told us. “The permit may require extensive revisions.” Chancellor estimated transferring the permit from Rio Tinto to SXR “could take up to a year and a half.”



Rick Chancellor, Wyoming DEQ.
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We talked with Chancellor about Froneman’s target of mining uranium in Wyoming by 2009. “If they come in right away, it’s doable,” he responded. But, there may be problems. “There’s a lot of water at Green Mountain,” Chancellor told us. “They (Rio Tinto) found a lot more water than they thought they would.” No surprise, the uranium mineralization is found in fluvial stream deposits in the Battle Spring Formation below the mountain. Chancellor explained there are a large number of springs on the mountain for the wildlife. According to the Bureau of Land Management’s Lander office, the area is popular for bicyclists who like cycling the roads among the abundant aspen, pine and spruce where they often encounter antelope, deer, elk and wild horses.

We talked with three uranium miners who had previously worked at Green Mountain. One miner who asked to remain anonymous told us, “There’s about 2500 feet of water on that mountain.” Chancellor expressed his concern, “Uranium mining will dry up the springs. They will need to find a way to mitigate the water problem.”

Rick Chancellor asked that we relay his message to SXR, “We need to talk right away.” We emailed those concerns to Neal Froneman, who quickly responded, telling us he would contact the Wyoming DEQ this week. Another indication we encountered of Froneman acting decisively and without hesitation.

What’s Next, Neal?



Aerial view of SXR Uranium One’s Dominion processing plant. The company’s first big step toward becoming a major uranium producer.
Courtesy of SXR Uranium One.

Where is Neal Froneman heading with SXR Uranium One in the United States? “I think our focus at this stage is mainly Wyoming, Utah and Arizona because of the breccia pipes,” said Froneman. “New Mexico is an area I don’t know well. That is not an area we’ve been able to focus on.” His focus will be Wyoming, for those companies who wish to become SXR’s takeover candidates. “I am very positive about Wyoming,” he pointed out. “I think it’s going to become a uranium province of significance. I even included that bullet point in my presentation. It is a highly prospective area.”

Coming from Neal Froneman, that’s quite an endorsement for Wyoming. His company’s Dominion uranium project in South Africa may be one of the largest undeveloped uranium deposits. It might also produce about 2.6 million ounces of gold, as a byproduct. In the Hargreave Hale Uranium Sector Review, published 20 April 2006, SXR’s 163 million U3O8 code-compliant resource is said to be “roughly the size of Cigar Lake.” Historic estimates (non NI 43-101 compliant) reportedly reach as high as 275 million pounds of U3O8 equivalent (220 million pounds of uranium oxide and 3.8 million ounces of gold).



Will Neal also buy this vanity license plate?
Photo Courtesy of Tom Powell, Land Manager for Strathmore Minerals.

We bring up the Dominion project as a comparison to what Froneman hopes to achieve at Green Mountain. While some predict SXR may run into troubles on the Wyoming properties, Froneman takes it with a grain of salt. "We're a company that's very proud of putting tough targets on the table. When we said we would produce in the first quarter of 2007 from Dominion, here in South Africa, the market said, 'Wow, that's not really possible.' But, we are going to surprise the market and actually do it."

There has been some skepticism about ramping up production to 5 million pounds of U3O8 per year in the U.S., starting in 2009. "Maybe I was slightly misunderstood there," he admitted. "We think we could start seeing some output in 2009. These are preliminary estimates. Allow us to complete the necessary technical work to confirm these targets and numbers."

Combining the expected uranium production from the U.S. operations with SXR's non-North American uranium mining, estimates show the company could annually be producing 10 million pounds of U3O8 in the early years of the next decade. Some have already begun calling SXR Uranium One the world's future fifth largest uranium producer. Is this premature? "One of our targets was that we had an asset base that took us to being able to become one of the top five uranium producers," Froneman explained. "I think the asset base we've secured so far gives us a really good shot at that title. I am very pleased with that title, and it is realistic."

One fan, Sprott Asset Management Market Strategist Kevin Bambrugh, emailed us his thoughts about the company's proposed acquisitions, "We view the transactions very positively and feel that it's further evidence that we've moved from the early exploration phase of this uranium bull market to a consolidation phase that will see a revaluation and separation between those that have large prospective resources and those that don't."



*Froneman believes the Sweetwater mill alone could be valued at up to \$500 million if it were vended into a liquid U.S. company.
Courtesy of SXR Uranium One.*

Did SXR achieve this consolidation at the top point of this current bull market? After all, Merrill Lynch's Vicky Binns announced in a July 12th report that uranium prices would average \$43/pound this year, about \$3/pound less than the current spot rate. And uranium would fall to \$35/pound by 2011. "No, I think we are in a long-

term bull run," Froneman rebutted. "We are not paying a market-related price. We all know that the market has taken a very significant correction. I can honestly say that I believe we bought good value." Froneman contended if the Sweetwater mill were vended into a liquid company in the U.S., it would be given a market cap of between \$400 and \$500 million. "I'm very happy with the transactions we've been able to secure," he explained.

"I believe the industry has to be consolidated," Froneman said. "We have a duty to provide uranium for clean energy. The way that is going to happen is we are going to have to do the right business things. We should be looking at synergies. We would like to be part of other opportunities." Again, he drops hints at more acquisitions, another merger or two.

But all of this deal-making comes with a hefty price tag. Together, we calculated the final cost for SXR Uranium One to bring its newly acquired U.S. assets into operation. We asked: Are you looking at about US\$500 million for everything? Froneman responded, "Yes, all in. But, I want you to be sure to mention my qualification. Just based on preliminary information, we only have sufficient information, at this stage, for Sweetwater."



Neal Froneman looks forward to SXR Uranium One becoming a U.S. company; a U.S. listing, he said, is inevitable.

Asked one Toronto brokerage firm analyst the burning question on each analyst's mind, as Neal Froneman discussed his company's strategy, "How much dilution should he expect?" Froneman suggested his firm had already received both debt and equity financing offers. An analyst pointed out SXR had but C\$100 million in the till. That may be a worry, but not just yet. The company has to pursue its due diligence before the deal closes. But Froneman is optimistic, despite the daunting price tag. "I think the value that will be generated out of this will be significantly more than that (US\$500 million all in costs)." By the way, there was a certain irony as an American listening to Canadian analysts questioning a South African engineer about uranium properties in Wyoming and Utah.

And if it all works out, where will the company be by the time it is producing uranium in the United States? We asked if SXR Uranium One would be listed on the New York Stock Exchange in a few years with a market capitalization of \$3 billion. Instantly, he responded, "We actually see it significantly more than that. We think without

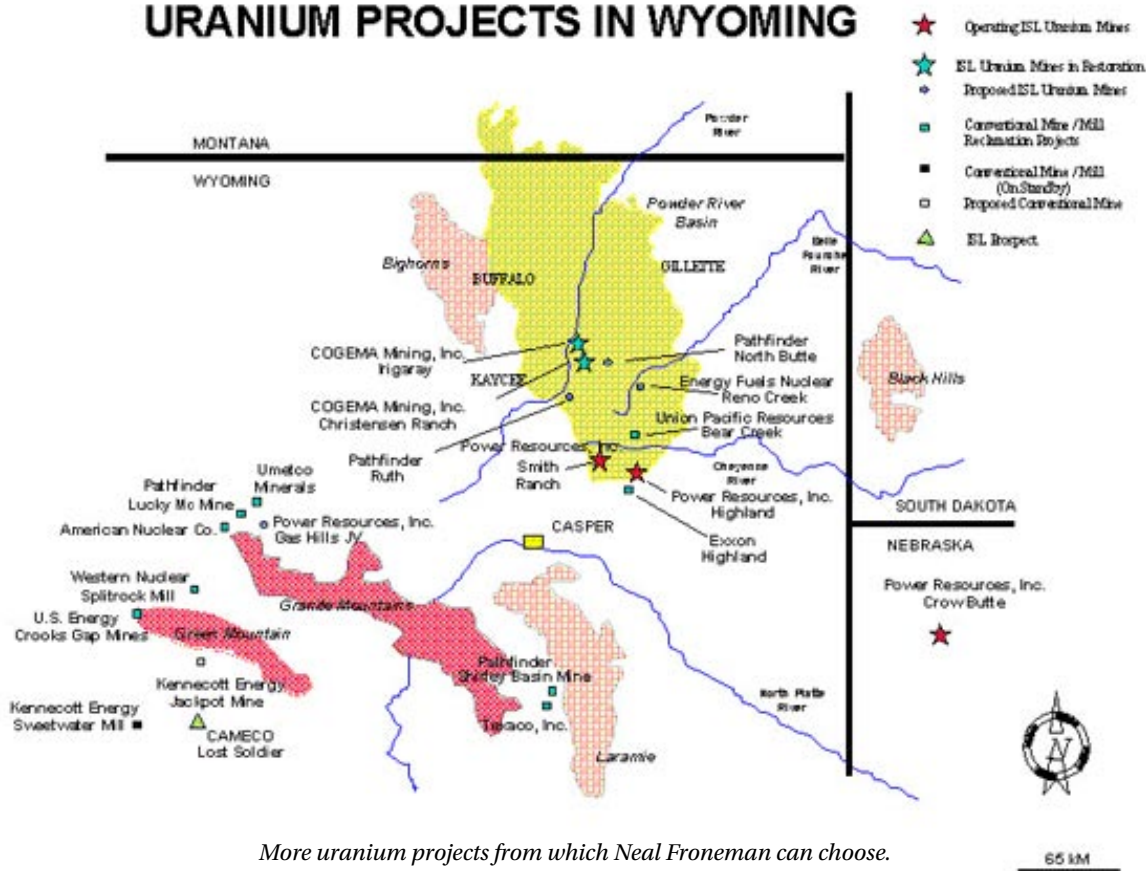
getting to the NYSE, we could see market caps of \$2 billion. Certainly, going to the NYSE, and continuing to grow our business, there is no reason we can't become a \$6 to 7 billion company."

He told us it would be inevitable his company would have a U.S. listing. "That will make it a lot easier for our U.S. investors to invest in us," he explained. "I think it will clearly demonstrate that we would like to be part of the U.S. Not only because of our U.S. assets, but we've got to be a U.S. company as well."

Still, Neal Froneman remains humble and considers himself fortunate, "What amazes me is the potential is not recognized like it should be. I've been trying to do these deals, and I've been extremely concerned that somebody would put us through the post. I am very bullish about the United States."

This past February, we interviewed Wyoming Governor Dave Freudenthal who announced to uranium miners, "Bring us your projects." Apparently, someone in South Africa was listening. And soon these two gentlemen will likely shake hands.

URANIUM PROJECTS IN WYOMING



More uranium projects from which Neal Froneman can choose.

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