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STRZELECKI SIGNS HEADS OF AGREEMENT ON ACQUISITION OF COAL ASSET AND OPERATION IN KYRGYZSTAN

Strzelecki Metals Limited is pleased to advise that it has entered into an option agreement with the shareholders of Posit Coal Pty Ltd (“**Posit**”) to procure the acquisition (subject to due diligence and issue of notice of intention to proceed) of 100% of the issued capital of Posit. Posit is an Australian private mineral exploration company with a 100% owned Kyrgyzstan subsidiary holding an ultimate 72% interest in the Kara Keche Centralny coal deposit in the democratic republic of Kyrgyzstan.

Highlights:

- **Access to an operating coal mining operation with the potential to rapidly expand production to 1 to 2 million tpa in the medium term.**
- **A program underway to convert current mineralisation estimates to JORC categories.**
- **The appointment of Graeme Rowley and Paul Devine to the Strzelecki Metals board. Both Mr Rowley and Mr Devine have extensive experience in the mining industry and hold key relationships in Kyrgyzstan.**
- **Joint venture with Government of Kyrgyzstan through its Kara Keche State Enterprise under the Ministry of Energy of the Kyrgyz Republic.**



Kyrgyzstan in Eastern Europe

Introduction

Significant historical exploration work and limited mining has been undertaken to date on the Kara Keche Centralny coal deposit, located in central Krgyzstan some 400 km from the southern border with China.

Work is already in train to upgrade the current mineralisation estimates to Australian JORC standards. On settlement, Strzelecki will commence a review of the work undertaken to determine what further steps need to be taken to ensure that it is of a standard sufficient to meet Australian reporting guidelines for release to ASX.

Potential early cash flow through expansion of the present operation will be a priority for the Company. Existing data on the project will be translated and digitised to allow for efficient mine planning, and new equipment will be acquired to lift production to 750,000 tpa. It is anticipated that this production target will be met within 12 months of the commencement of production.

The Government of Kyrgyzstan is a recently elected government, elected under a democratic process with an expressed desire to attract foreign investment. Posit is seen as one of a small number of “first movers” to enter into agreement with the government to facilitate investment and the development of large resource projects within the country. Posit maintains a competent administrative and field management and support team in Kyrgyzstan, and has established good relationships with all levels of government and with the local people.

Structure post acquisition

Once the acquisition is complete, the structure of the Company will be as follows:

- Strzelecki to own 100% of Posit Coal Pty Ltd, a private Australian registered company;
- Posit Coal Pty Ltd owns 100% of Posit Investments LLC, a private Kyrgyzstani registered company;
- Posit Investments LLC owns 90% of Kyrgyz Coal LLC, also a private Kyrgyzstani registered company.
- Kyrgyz Coal LLC is an 80% shareholder in the Kyrgyzstani joint venture company Kara Keche Coal LLC, which will develop the Kara Kreche Centralny deposit. The remaining 20% interest in Kara Keche Coal LLC is held by a Kyrgyz State-owned enterprise.

The effect of the above structure is that Strzelecki will hold an ultimate 72% interest in the Kara Kreche Centralny deposit.

Management

Following settlement the board and management of Strzelecki Metals will change with the appointment of two new directors, Messrs Paul Devine and Graeme Rowley, and the retirement of two of the present directors of Strzelecki. A managing director/CEO will also be sought to oversee the listed entity and operations in Krgyzstan.

Graeme Rowley AM recently stepped down from executive duties as Executive Director

Operations at Fortescue Metals Group Limited, Australia's third largest mining company, where he remains a non executive Director. He was previously an executive with Rio Tinto plc, holding senior positions in Hamersley Iron and Argyle Diamonds, and has been a director of the Dampier Port Authority, the Pilbara Development Commission, the Council for the West Pilbara College of TAFE and the Western Australian Government's Technical Advisory Council.

Paul Devine is the managing Director of Illuminate Capital, a boutique capital house based in Perth. Paul has acted as corporate and strategic consultant to a number of ASX listed companies, providing both corporate and asset services for Illuminates Clients. He has been a Director of several public companies. Paul also has spent many months in Kyrgyzstan over the last year and has a vast knowledge of the country and its people. During his time in Kyrgyzstan Paul has been worked closely with interested joint venture partners to provide both strategic partnerships and the expertise of foreign capital in a country that is looking to rapidly develop its mining assets.

The newly appointed directors will bring skills to the Company which will ensure the success of the Kyrgyzstan coal operation and the generation of wealth for shareholders.

Kyrgyzstan

Kyrgyzstan became an independent country in 1991 after previously being part of the Confederation of Independent States which formed part of the Soviet Union. The 1993 Constitution defines the form of government as a democratic republic. The executive branch includes a president and prime minister. The parliament currently is unicameral. The judicial branch comprises a Supreme Court, a Constitutional Court, local courts and a Chief Prosecutor.

In July 2010 a referendum voted overwhelmingly to change the constitution, curbing the powers of the President and enhancing those of Parliament and the independent Judiciary. In November 2010, the first parliamentary elections under the new constitution produced a threeparty coalition led by the new interim reformist President, Ms Otunbayeva's, Social Democratic Party. The largest party in parliament, the nationalist Ata Zhurt, with a dominant following in south Kyrgyzstan and a smaller but reformist Republic make up the governing Coalition. The two parties in opposition, Ata Meken and Ar Namys have differing policy platforms.

The elimination of historic corruption patterns has been a very strong election issue. Economically the country is largely dependent on agricultural products, mining and cross border trade.

Heads of Agreement Summary

The Heads of Agreement provides for the acquisition by Strzelecki Metals of all of the issued capital of Posit on the following terms:

- Posit grants Strzelecki an exclusive option to purchase all the issued capital of Posit for a period of 45 days from the date of execution of the agreement, with a 45 day due diligence period to apply for both parties.
- If, following the 45 day option/due diligence period, both parties decide to proceed then a formal sale agreement shall be finalised within 30 days, with the parties to use best endeavours to negotiate and settle the agreement within the allotted time frame.

Key terms and conditions:

- Completion of the acquisition of the Posit shares and the payment of any consideration will be subject to and conditional on:
 - The mineral tenement being unencumbered and in good standing;
 - The obtaining of all necessary mining licenses and consents from the Kyrgyzstan Government;
 - Receipt of all other necessary approvals and consents required under Australian law.

- On settlement Strzelecki will:
 - Issue to the vendors \$6.5 million in ordinary shares at an issue price of 2.5 cents per share and contribute \$1 million in cash to Posit to settle debts and loans of Posit existing at the time of settlement;
 - Appoint the two Posit nominees, namely Paul Devine and Graham Rowley, to the board of Strzelecki and cause two current Directors to retire.

- Upon the achievement of certain milestones, and subject to certification of at least 125 million tonnes of JORC Inferred Resource, Strzelecki will issue to Posit further shares as follows:
 - After six consecutive months of mining of coal at a production level of 50,000 tonnes per month, shares to the value of \$5 million at an issue price of 80% of the VWAP over the 10 days prior to the date of the sixth consecutive delivery of 50,000 tonnes;
 - After delivery of and payment for 750,000 tonnes of coal under a Farm Gate Offtake Agreement, shares to the value of \$5 million at an issue price of 90% of the VWAP over the 10 days prior to the date of delivery of the last of the 750,000 tonnes;



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