

New Sprott commodity play

Eric Sprott and his relentless team of resource investors appear to have caught favorable winds with their new investment vehicle.

Sprott Resource Corp. (SCP-TSX, \$2.31), which began last September with \$67 million in the kitty, recently acquired sources for two highly in-demand products, phosphate, needed by fertilizer producers, and metallurgical coal, which is needed by steelmakers.

The phosphate deposit, located on a rail line 200 kilometres east of Lima, Peru, could turn out to be "one of the largest undeveloped phosphate deposits in the Pacific Rim," if historical estimates are confirmed.

"Phosphate rock prices were running about US\$40-US\$50 a tonne when we first went to tie this project up and now are over US\$200 a tonne," CEO Kevin Bam-

brough said. "The economics have completely changed, and we've been contacted by numerous groups wanting to get involved."

He said the company is hopeful to begin a drill program soon, which will produce a resource estimate compatible with required reporting standards before year-end.

The deposit, which emerges at the surface and is about 24 metres thick, a 100 metres wide and 12 kilometres long, would be worked as an open-pit mine.

"I'm slightly disappointed that the market has gone up as quickly as it has because I was hoping to have time to accumulate more of these projects at very attractive prices," Mr. Bamrough said. "You're not going to be able to get projects of this quality anymore. They have all been tied up."

Sprott Resource's other commodity play is PBS Coals Inc., which operates nine coal mines in

Pennsylvania, producing three million tons a year. About 70 per cent of the production is metallurgical coal, which PBS exports, at low expense, to Europe from the nearby port of Baltimore.

PBS has reserves of about 137 million tons. Metallurgical coal prices have soared in the last year from US\$95 a ton to US\$275 a ton recently, as some suppliers on account of weather-related disruptions have been unable to meet their commitments.

Sprott Resource acquired a 22.4 per cent interest in PBS for US\$31 million. The timing could not have been better.

"In preparation for this transaction, we were fortunate to move the money over when the Canadian dollar was US\$1.07," Mr. Bamrough said. "When the transaction closed, we were able to post a \$2.4 million forex gain as a little bonus."

Eric Sprott is chairman of the new company and John Embry, chief market strategist at Sprott Asset Management and a columnist for *Investor's Digest*, is a director.

Management and directors receive no direct income from the company, which has outsourced its management to Sprott Consulting LP, a division of Sprott Asset Management. Like a hedge fund, the company pays Sprott Consulting a fee equivalent to two per cent of its net asset value annually and a annual performance fee of 20 per cent of the pre-tax profits above the return that the Canadian generic bond index would bring.

"It's actually a cleaner model," Mr. Embry says. "There is often much chicanery with junior resource companies and in the resource field period. Our model is very transparent, and the company is getting good value for what it is paying." — Mike Popovich