

Marathon Resources

Take up rights issue

Shareholder entitlement issue

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Marathon Resources has announced a 1-for-5 non-renounceable rights issue at an issue price of \$2.50 per share. The offer is an attractive one in our opinion as it represents a 25% discount to the closing market price of Marathon the day before the issue was announced. We would encourage all Members that are Marathon shareholders to take up their entitlement issue in full.

"Despite the recent pullback in its share price, Marathon has generated returns far in excess of most of its uranium peers."

Fat Prophets initially recommended buying Marathon Resources at 72 cents in March 2006 (Fat Mining 16). Our last review of the stock was in September (Fat Mining 94).

Since our review three weeks ago, Marathon's share price has drifted towards the lower end of the range between support at \$2.55 and resistance at \$4.15. In our opinion, the failure to sustain the strong rebound in August suggests additional base building and consolidation is required before there will be a revival in upward momentum.

As evident on the daily chart, major support at \$2.55 currently remains intact. However, given the continued influence of downward momentum, we cannot rule out probes below here in the near term.

We had the opportunity on Tuesday to meet with Stuart Hall, Marathon's new CEO. He was in town to promote the company's above-mentioned rights issue, which if fully subscribed will raise around \$27 million to fund the company's ongoing exploration programmes and Pre-feasibility Study on its Mt Gee uranium project in South Australia.

We are very impressed with Stuart Hall. He possesses more than 30 years experience in the resources industry in Australia, Africa and Europe, including senior positions with BHP Billiton, WMC Resources and Rio Tinto. He seems eminently capable of managing an emerging project and taking it through to production status.

Let us now explain the entitlement issue to Marathon shareholders.

The company has undertaken a 1-for-5 non-renounceable rights issue to its shareholders at a price of \$2.50 per share. What inevitably happens in such situations is that the market price inevitably drifts back closer to the offer price. Nevertheless, we think the entitlement offer is attractively priced.

Members who were Marathon shareholders as at 9 October will be able to participate in the rights issue. We understand that the offer document and acceptance forms were to be sent out to eligible participants on 12 October.

We would therefore encourage all members that are Marathon shareholders to take up their entitlement in full. The closing date for acceptances will be 26 October.

Importantly, Talbot Group Holdings and CITIC Australia, which together hold around 19.59% of Marathon's current share capital, intend to take up their full entitlements under the offer.



Furthermore, Marathon's board of directors who collectively control around 11.23% of the company's current share capital, also intend to take up their full entitlement.

We would anticipate the new shares being issued on 5 November and trading of the new shares to commence on 7 November.

The proceeds of the issue will be used primarily to fund the next stage in the development of the company's Mt Gee uranium project in South Australia.

As we highlighted in our most recent coverage of Marathon, recent work aimed at reaffirming confidence in the company's Mt Gee uranium deposit has unfortunately led to a downgrade in the resource.

Independent analysis has determined that around 40% of the resource area needs additional drilling to justify the previous resource interpretation. Marathon will therefore ramp-up its infill drilling programme in order to quickly re-establish the resource.

While the revised resource estimate represents an overall decrease compared with the August 2006 figure, the area to which the revised estimate relates overlaps only 60% of the previous estimate area.

The reduction in the estimate area is a result of a revision to the underlying resource model which does not allow us to assume the same level of grade continuity as previously modelled. As a result, the remaining 40% of the August 2006 estimate area has been excluded from the revised estimate, but continues to represent excellent exploration potential for the project.

From discussions on Tuesday with CEO Stuart Hall, we can be reasonably confident that the overall uranium resource will be restored to its former size once the necessary amount of drilling work is completed.

Marathon is now re-appraising its exploration strategy at Mt Gee with a view to developing an optimum plan to upgrade a significant portion of the Inferred Resource to Indicated Resource status. Basically, this means a lot more infill drilling.

Mt Gee is one of the biggest undeveloped uranium deposits in Australia. It has the major added benefit of being located in South Australia, one of only two states in Australia amenable to uranium mining.

Rio Tinto's recent decision to put its large Kintyre deposit in Western Australia up for sale speaks volumes in our view. At a time when Rio has committed itself to expanding its uranium business, it has sought to offload one of its major assets. The only conclusion that we can draw from this is that Rio sees no imminent change of heart on the regulatory front by the WA government.

More than ever, we feel comfortable with our stance of ignoring all domestic uranium plays outside of South Australia and the Northern Territory.

We believe that Marathon will be able to manage all of its resource and technical issues through persistence. This will require patience on the part of investors. Our conservative start-up date for production would be 2012. The company still boasts one of Australia's largest undeveloped uranium deposits, with further resource upside. This still puts it streets ahead of most of its Australian uranium peers.

Accordingly, Marathon Resources will remain held within the Fat Prophets Mining & Resource portfolio. We would encourage those Members that are existing MTN shareholders to take up their rights issue entitlements.

