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Portfolio News: Uranium



Maintain uranium exposure

Our four portfolio uranium exposures

[Fat Mining 118](#), 02 Apr, 2008

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SYMBOL DEFINITIONS

 ENERGY	 CRYSTAL BALL
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We thought it timely to return to the uranium sector this week, given that most of our portfolio uranium stocks have been in the news recently. We are pleased to report that in nearly every instance the news is positive, but given the volatility and nervousness that permeates the junior end of the resources market at the present time, there hasn't necessarily been much of a positive impact on respective share prices.

"We believe that uranium is still a great business to be in for companies with the right projects."

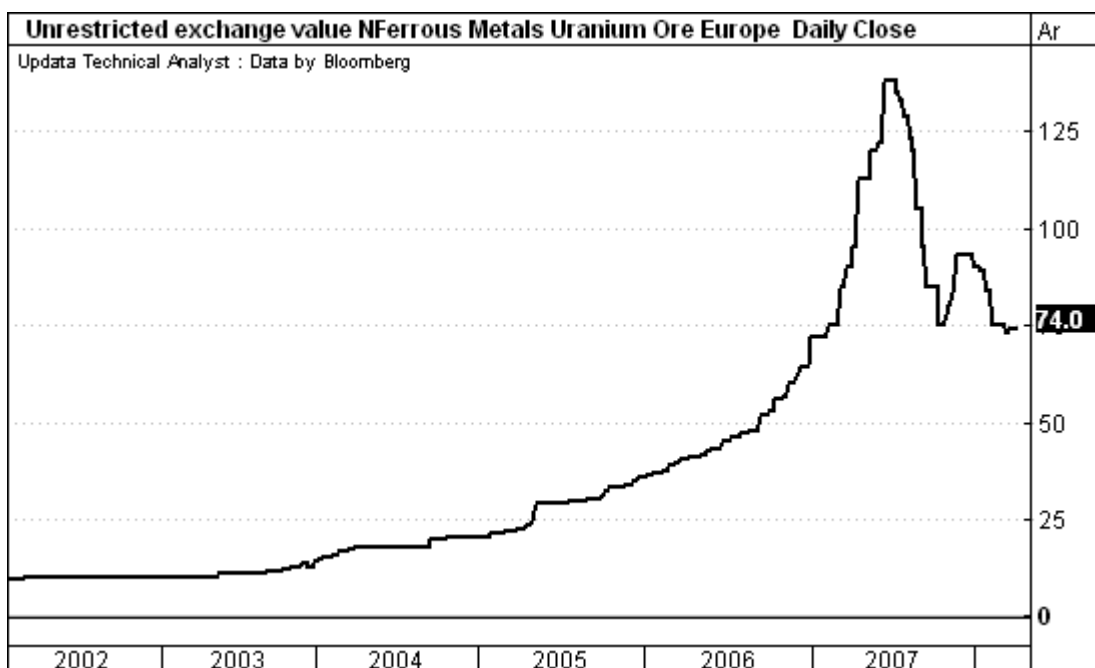
We thought it opportune to bring Members up to speed with respect to the current outlook for the uranium sector, as well as provide a quick update on the four uranium exposures in our portfolio.

It's fair to say that certain companies at the junior end of the market have made, and continue to make, great strides with respect to exploration achievement and project development.

This is particularly the case with all four of our portfolio stocks, with Extract, Bannerman and Paladin all making exceptional progress on their various African projects, whilst Marathon has some good news to announce on the exploration front in South Australia

Let's begin with an analysis of the uranium price itself. As we commented in our most recent coverage of the sector, by comparison with virtually all other commodities the performance of uranium has been very disappointing.

A large part of the problem was the rapid rise in the price of uranium at what turned out to be an unsustainable rate. From record highs of US\$138 a pound last year, the price has since fallen to around US\$74 a pound at present. At its current level the spot price is down about 20% from its US\$93 a pound three months ago and 46% off its US\$138 peak in June last year.



All of this must be seen in its proper context however, with uranium still twelve-and-a-half times higher than it was at the beginning of 2003.

So, we reiterate that the current price represents a quantum leap for uranium miners compared to just a few years ago and reflects the fact that uranium will undoubtedly account for a much greater share of world energy production over the ensuing decades.

We remain comfortable with the uranium price outlook for 2008 and believe any supply-side problems, as we have witnessed in other commodities, could have a major positive impact on prices.

According to a sector study released last week by Resource Capital Research, planned and proposed new nuclear reactors worldwide continue to increase. Over the 12 month period from January 2007 to January 2008, there was an increase of 93 reactors from 222 reactors to 315 reactors, an increase of 42% according to the RCR study.

The study also comments that a number of governments, including the UK and the USA, have called for a review on reactor closures, or have indicated their support for plans to accelerate the building of new reactors.

Meanwhile, China has announced plans to increase its target for installed nuclear power capacity to 60 GWe by 2020, up from a previous 40 GWe target. The country has 11 nuclear reactors in operation generating 8.6 GWe and a further 116 reactors planned or proposed.

We therefore believe that uranium is still a great business to be in for companies with the right projects.

We believe that we have been highly discriminating with respect to our uranium sector recommendations over two-and-a-half-year history of the Fat Prophets Mining & Resources report. We have carefully selected what we consider to be four of the best emerging uranium plays in the world.

As we highlighted in early uranium sector commentaries almost two years ago, the sector was hazardous for investors as there were numerous speculative offerings that had, and still have, almost zero chance of delivering anything tangible for investors, other than speculative froth and bubble that quickly fizzled out.

We reiterate that most of the literally dozens of poor quality uranium companies that floated on the ASX a couple of years ago are struggling to stay afloat.

By contrast, all four of our portfolio uranium selections have solid project bases, with the prospect of strong future production. Let's now update Members on their progress.

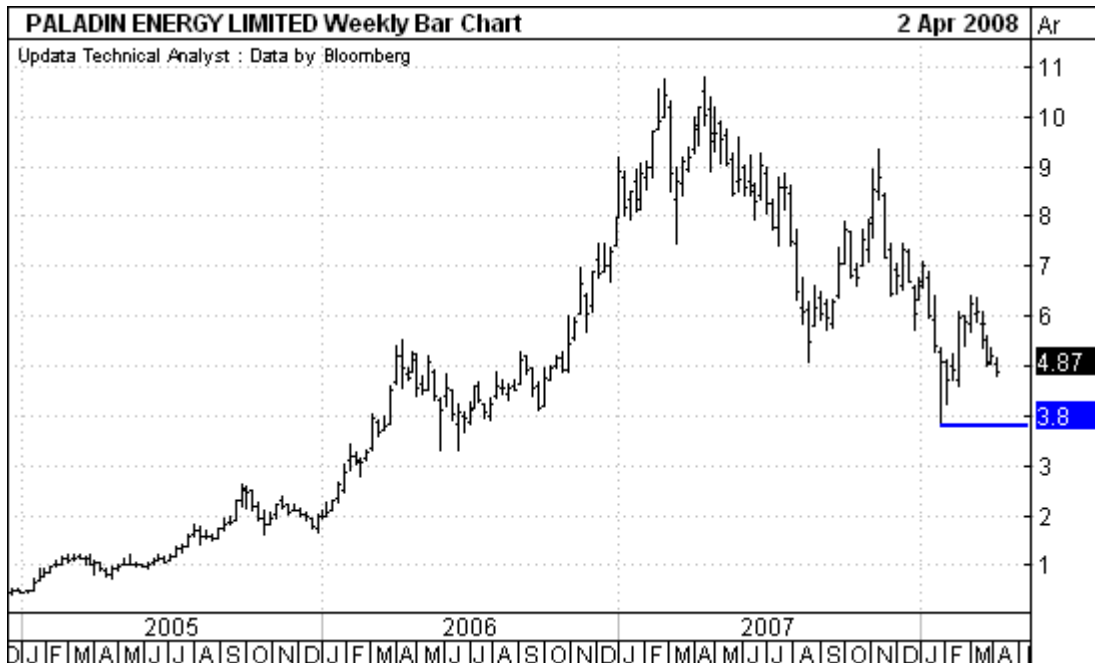
Paladin Energy - Hold PDN

Market Cap \$3.0b

Upgraded resource at Bigryli in NT

Paladin Resources recently announced a major resource upgrade at the Bigryli joint venture uranium project in the Northern Territory. The company holds a 42.06% stake in the project, whilst junior companies Energy Metals and Southern Cross Exploration hold respective interests of 53.74% and 4.2%. We had the opportunity to meet last week in Sydney with one of Energy Metal's directors, Lindsay Dudfield, who explained the latest developments.

Energy Metals is the project operator and has advised that the uranium resource has grown by 64% compared to the previous estimate a year ago, whilst the vanadium resource is up 168%. The resource upgrade incorporates the results from 274 holes drilled during the 2007 field season.



At a 0.5% cut-off grade, which is a very conservative grade compared to most uranium resource calculations, the Bigryli resource totals 23.4 million pounds U₃O₈ and 43.7 million pounds of V₂O₅. Importantly the mineralisation remains open along strike and at depth.

An initial scoping study based on the previous March 2007 resource indicated that the project had the potential to produce 8.4 million pounds of U₃O₈ and 7.0 million pounds of V₂O₅ over an eight-year mine life. The upgraded resource should significantly enhance the project economics, with Pre-feasibility work to commence during the second half of 2008.

All of this is exciting news for Paladin Energy, as it gives the company the very real prospect of a third uranium development to complement its existing Langer Heinrich operation in Namibia and its developing Kayelekera project in Malawi.

Paladin recently announced the completion of debt financing for Kayelekera, whilst Langer Heinrich is firmly on track with regard to production. Paladin remains in the box seat, with growing production at a time of solid uranium prices and only modest price hedging. Uranium is not exactly flavour of the month at the moment; however we are not interested in fashion.

Accordingly, Paladin Energy will remain firmly held within the Fat Prophets Mining & Resources portfolio.

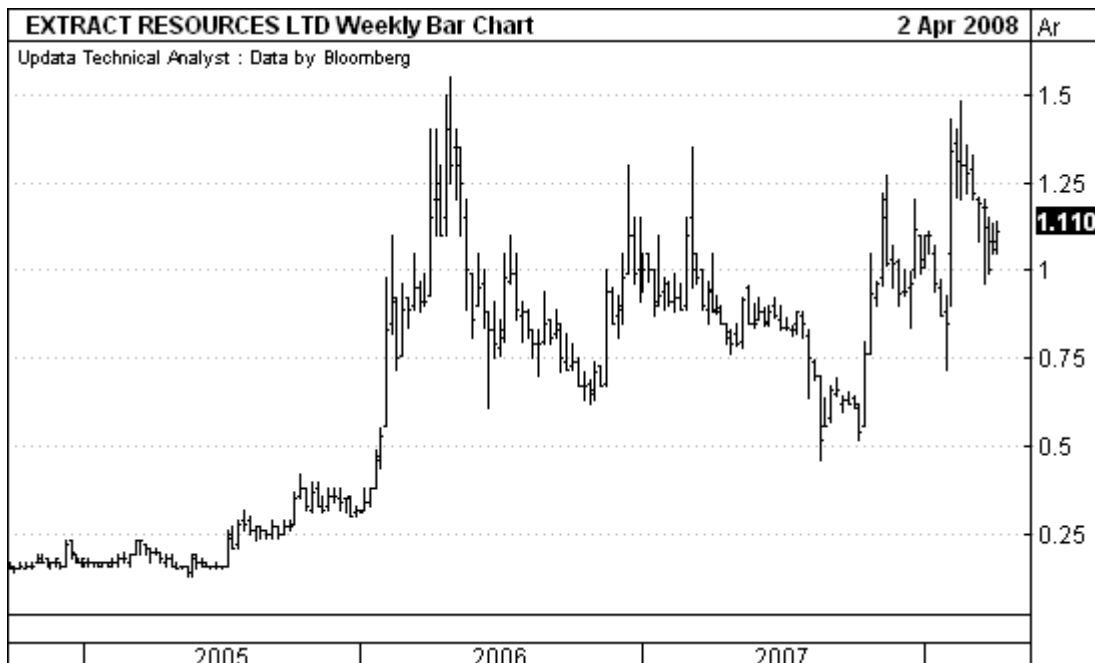
Extract Resources - Hold EXT

Market Cap \$200m

Interesting corporate developments

Extract Resources has been far and away the best sharemarket performer of late of our four uranium stocks, generating a lot of positive momentum with excellent exploration results. We reported on these exciting results in our last report.

More recently there have been interesting developments of a corporate nature, with African-focused uranium company, Niger Uranium, purchasing a 17.5% stake in Extract's largest shareholder, Kalahari Minerals. Kalahari holds a 36.17% stake in Extract.



Niger Uranium will acquire a total of 27.68 million shares in Kalahari, representing a 17.5% stake. The directors of Niger Uranium have stated that the acquisition provides it with interests in near-term potential uranium production and a diversification of its uranium portfolio into Namibia, a country it says has a reputation for having a positive approach to the development of mining projects.

Without inferring that Extract Resources is a near-term takeover target, the purchase by Niger Uranium of a major stake in Kalahari has to be seen as a positive development. The buy-in demonstrates the attraction of Namibia's resource potential, and by inference Extract's Husab uranium project, which is developing rapidly.

Extract is continuing its aggressive exploration programme in Namibia, with the results so far in 2008 not only adding to the overall scope of the resource, but also providing confidence with respect to grade, which could be of major significance with respect to project economics and operating margins.

With aggressive exploration continuing, we now await the announcement of the company's initial uranium resource for Husab, which we estimate will be in the vicinity of 30-40 million pounds.

Accordingly, Extract Resources will remain very firmly held within the Fat Prophets Mining & Resources portfolio.

Bannerman Resources - Hold BMN

Market Cap \$272m

C\$20m funding completed

Bannerman Resources, like Extract Resources, is developing its own Namibian uranium project, called Weltwitschia. Bannerman's current activity is entirely focused on its Goanikontes uranium deposit, which lies immediately south of Rio Tinto's Rossing uranium mine.

Both companies are at similar stages of development, having completed scoping studies recently, but as we have previously highlighted, Bannerman boasts a confirmed resource base and is roughly 12 months

ahead of Extract with respect to its exploration programme.



Bannerman plans to begin a full bankable feasibility study during 2008, with an eventual production start-up hopefully in 201. The company's exploration and development work will be assisted by the C\$21 million capital raising to Canadian investors completed last week.

The current resource estimate for the company's Goanikontes Anomaly A deposit is 72.2 million pounds and is based on 223 RC holes and 19 diamond holes drilled by the company up until mid-December 2007 over Anomaly A, covering a strike extent of 2.2km. The bulk of the resource was modelled down to about 300 metres vertical depth, whilst drilling is ongoing with a view to produce a final resource down to around 400 metres.

Drilling is continuing with the aim of producing a final resource estimate some time during the June 2008 quarter. In a release last week, the company advised that three RC rigs and two diamond rigs are currently operating at Anomaly A, with results from the current programme confirming the excellent widths of mineralisation within the alaskites.

Encouragingly, all grades are higher than those reported in the recent resource upgrade. The resource size is going to get considerably bigger, with diamond drilling down to 400 metres depth likely to be a big component.

Bannerman Resources will remain firmly held within the Fat Prophets Mining & Resources portfolio.

Marathon Resources - Hold MTN

Market Cap \$97m

At last some positive news!

Marathon Resources Mt Gee property in South Australia hosts one of Australia's largest undeveloped uranium deposits, with a resource of around 30,000 tonnes U3O8. Major resource players, Talbot Group Holdings and CITIC Australia, together hold just under 20% of Marathon and provide us with longer-term confidence despite the numerous hiccups that the company has endured recently.

As we have previously advised, Marathon has suffered over the past 12 months from a couple of key blunders that have led to a delay in the overall appraisal/development process with respect to its Mt Gee deposit. These issues related firstly to resource calculations and secondly to environmental matters.



Encouragingly, there has been more positive news of late, with the company announcing this week the latest results from its most recent drilling programmes. The first assay results from the programme involving four rigs between November and February, indicate a likely substantial extension to the known mineralisation at Mt Gee that also provides the potential for a major resource upgrade.

In September last year Marathon announced a revised Inferred Resource containing 26,900 tonnes U₃O₈, of which less than 10% fell within the Indicated Resource category. Marathon has since focused its drilling work on specific areas of the deposit with a view to developing an optimum plan to upgrade a significant portion of the current Inferred Resource to Indicated status.

On the environmental front, Marathon says it is continuing to work closely with the South Australian government's environmental authority to develop a suitable resolution for the retrieval and disposal of drilling residue previously buried at Mt Gee. The company is also continuing its work, begun in December last year, on its Pre-feasibility Study and Environmental Impact Study, which is anticipated to take up to 18 months to complete.

Despite the roller-coaster ride for shareholders, the company still boasts one of Australia's largest undeveloped uranium deposits, with further resource upside.

Marathon Resources will therefore remain held within the Fat prophets Mining & Resources portfolio.

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