



DIGGERS AND DRILLERS

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Return of the Uranium Bull

Buy Now: Why this forty cent African uranium explorer could become a one billion dollar takeover target in just two years

By Dr. Alex Cowie

The market turned a cold shoulder to uranium stocks after Fukushima.

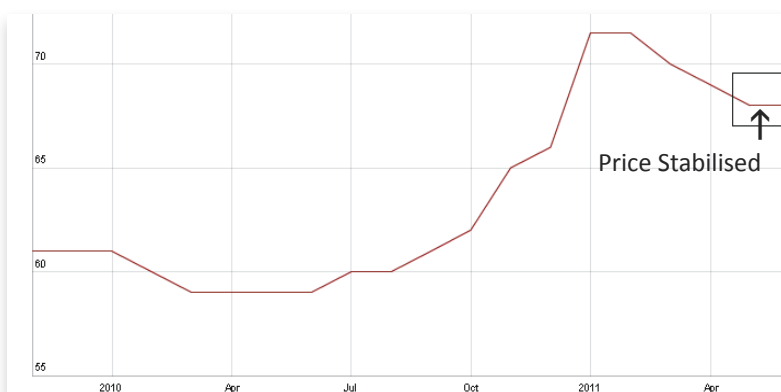
Prices of most quality uranium stocks are less than half of what they were just five months ago.

Meanwhile, the market for actual uranium is as strong as ever. The long-term uranium price is what matters. And it only fell by a fraction before quickly stabilising at \$68/lb.

The long-term uranium price is still higher than it was for most of last year, when uranium share prices were flying.

You may have seen this chart already. I want to show it again quickly to highlight how the uranium price has already stabilised since last month.

Uranium long-term price alive and well



Source: Cameco

So we have a strong uranium price.

And BARGAIN BASEMENT uranium stocks.

And the only reason for this mismatch is fickle investor sentiment. But the tide is just starting to turn now as investors start to see

Inside D&D:

Why this forty cent African Uranium explorer could become a one billion dollar takeover

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the obscene value staring them in the face. Right at this moment there is a shrinking window to buy great uranium stocks on the cheap.

This month's tip is so hot it was the first of the Aussie uranium stocks to start a recovery after the Fukushima sell-off. Don't worry – it still looks cheap. In fact it is still very early days for this one, and it has a lot further to run just yet.

Exploration stocks are for investors with a taste for risk. But I've picked one for you with the odds stacked well in its favour.

It's right next door to one of the industry's most highly valued uranium deposits, on a dollar per pound of uranium basis.

And the initial drill program of the company I'm about to tell you about has been outstanding. Many of its results are in fact better than its billion dollar neighbour. Will the good news keep coming? Time will tell. But it's off to a flying start.

No more false starts for uranium

We are still flying headlong towards a uranium shortage.

There is already a 15% shortfall in production – which is met by recycling the uranium from old nuclear warheads!

This 'HEU' program expires in 2013, leaving a gaping hole in the market which will keep prices high.

This is not far away, and I think we have seen the last false-start for this sector. I think we might finally be starting the dream run we have all been waiting for.

I explained in the last newsletter that China is the main player in uranium's story, and it has already publicly put its weight behind the future of uranium.

Since then, two more major players have given uranium their vote of confidence.

The UK has one of Europe's most advanced nuclear programs, which is at the core of its energy policy. It has confirmed plans to build enough nuclear plants to produce 16 Gigawatts (GW) by 2025.

The UK's plans are quite significant. To put it in context, China's official target for nuclear power is up to 80 Gigawatts. Australia's entire power production capacity is about 60 Gigawatts.

Then last week KEPCO, the Korea Electric Power Corporation, told attendees at the Australia Uranium Conference that it was in the market for buying uranium assets. This creates some welcome takeover speculation in the sector.

More importantly, South Korea is a large uranium consumer. And this comment was a clear signal that its nuclear energy strategy is intact.

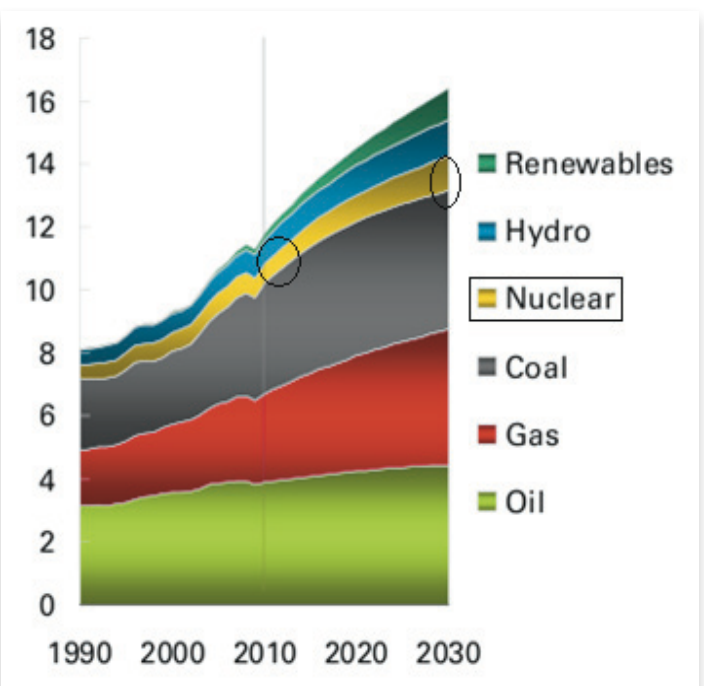
Nuclear energy is not going away. The technology is tried and tested; and it provides cheap, safe power.

Not a popular idea after Fukushima perhaps - but yes, it is safe.

But the world's power needs are still growing steadily, and nuclear power will always be one of the ways to meet them. Last year, nuclear energy provided 372 GW of energy – 7% of the world's total.

The world could need 50% more power in 2030 than today. And the International Atomic Energy Agency (IAEA) reckons nuclear power's share of this growing pie will increase from 7%, to more than 10% by then.

Nuclear's growing contribution to the global energy mix



Source: BP

So with uranium prices already stable, and looking secure for the future, today's uranium share prices could be your last chance to invest in this sector on the cheap.

A high-risk, high-reward uranium play

This month's uranium tip is an early explorer – which makes it highly speculative. This is for investors with a bit of risk appetite.

It's a long and risky road from exploration to production.

But if you get it right – the reward can be massive gains.

So why do I think those risks could be worth it for this stock?

Uranex (ASX:UNX) is this month's tip, and I'll explain why.

To start with, it has had exceptional results in its first pass exploration.

It has also secured a large exploration licence right next to a successful takeover target.

There's a great deal of potential here, and so far it has only explored 5% of the ground that is prospective for uranium.

It has a good team behind it, is in the right place, and is now looking very cheap after the post-Fukushima sell-off.

So far just 61 drill holes are finished at its Mkuju prospect in Tanzania, Africa.

The latest results just last week were excellent – one hole had 12 metres at a grade of 1,068 parts per million (ppm).

Anything with a grade reading in quadruple digits is a stand out, and two metres of that hole was at 4,100ppm.

Last month's results were right up there with a huge 85 metres at 474ppm, and this contained a full 13 metres at 1,511ppm. Another excellent intersection included 19 metres at 1,068ppm.

It was the same story with previous results, with 10.5 metres at 1124ppm.

The pick of the bunch has to be 68 metres at 1094ppm.

These results are all outstanding high-grade, wide intersections.

I'm cherry picking here of course. You won't hit a bullseye every time, particularly at this stage. But there were many others were excellent results.

It's certainly a great start from just 61 holes. Importantly, all these hits are less than 100 metres deep. This helps the chances of this being a cheap, open-pit mine one day, rather than a more expensive underground operation. The geology is good too – nice soft sandstone, which is cheap to process, as it easier to grind.

They have refined their search using radiometric surveys, taken from a plane to show the areas with the highest 'radiometric signature'. In other words imaging technology that shows which rocks are the most radioactive.

This has helped narrow the search to some very promising prospects. A further 200 holes are planned in the second half of this year, more than quadrupling the drill program for 2011. There will be plenty of news coming this year.

Uranex Resources – exploring in the right address

All these results are from just the first three kilometres at the company's 'Likuyu North' project.

In all, there are 69 kilometres of rocks the geologists want to stick a drill in.

Likuyu was a good place to start exploration. It is just 30 kilometres south of one of the world's most highly valued uranium deposits, discovered by Mantra Resources.

Mantra developed a uranium resource containing 101 million pounds of uranium at 424 ppm. The Russians liked what they saw and recently bought the company for \$1.1 billion. This is the equivalent of paying 10 bucks for each pound of uranium, and it

was a very happy day for Mantra's investors. Of course having a celebrity up the road doesn't mean you'll follow the same fate. Eric Bana lives near me apparently, but I've still not had any calls from Hollywood casting agents.

But this Mantra 'nearology' tells us two important things: Firstly that major investors are comfortable with investing in Tanzania as a jurisdiction for the long term, which is important. Secondly – it shows that the local geology has the potential to come up with the goods.

Mantra is not the only prominent neighbour in the region either. Paladin energy (ASX:PDN) has a uranium project just across the border in Malawi. This is a high quality deposit containing 46 million pounds of uranium at 802ppm, another good indication that the region can host high-grade uranium mineralisation.

Southern Tanzania has good coal potential as well. And we have one of our own dear majors not far from Uranex – Rio Tinto, in a large joint coal venture there. Like Mozambique to the south, Tanzania hosts some good coal deposits. Thanks to this coal industry, there is good infrastructure available, with rail right by Uranex's license, and ports a few hundred kilometres to the East.

Uranex is also doing a bit of coal exploration. Its Songea prospect covers 3500 square kilometres, 10% of which will be explored this year. We may just about get an exploration target from this. It's worth keeping an eye on, but the uranium is the main story here.

It's early days, so what to expect next?

Thanks to such a promising start the share price has already climbed 20% since the Fukushima selloff, in stark contrast to the rest of the sector.

This share price recovery will only accelerate if the stock market and uranium price both improve, and uranium sentiment turns around as well.

Don't forget the exploration pace steps up in the

second half of the year – increasing the number of holes drilled from 60 to 260.

Only time will tell how good they will be, but good results from this substantial exploration program will be the key driver for the rest of the year.

There's no resource figure at Mkuju yet – but if it all goes to plan, the maiden resource figure will be announced early next year. Uranex has well-regarded consultants, CSA, on the case with this.

According to a recent article in *Resource Stocks* magazine, the company reckons that the drilling at the current prospect alone has:

'...the potential to host 20-30 million pounds of uranium in the 300 – 700 ppm range'.

Any grade in the 400–500 ppm range makes the deposit comparable to Mantra's – and should get the market's attention.

***“ ‘...the potential to host 20-30 million pounds of uranium in the 300 – 700 ppm range’.* “**

But with so many drill results above 1000 ppm, it's easy to see how the grade of Uranex's maiden deposit could be higher than Mantra's.

Still, 20–30 million pounds of uranium doesn't make you a takeover target. The big guys that are buying assets are looking for deposits with the potential for long mine life.

But with 95% still unexplored, there is plenty of time and opportunity to grow the resource further.

A future takeover target?

After the maiden resource announcement, the company starts the scoping and feasibility studies. It is way too early to put a date on production. But they may not have to think that far ahead. A takeover offer is quite possible if the resource comes together well.

Recall that Mantra was valued at \$10/lb in its takeover offer. A 30 million pound, high-grade deposit would be worth \$300 million by that metric. That is a massive assumption, but would imply a 300% increase from today's share price.

It's hard to imagine that kind of valuation in today's soggy uranium market. But if you are patient enough

as an investor to wait two years, Uranex may just have defined a comparable resource to Mantra's in that time. Uranium prices would most likely be significantly higher by 2013, and merger and acquisitions would be rife. In that case \$10/lb could look cheap!

I'm getting ahead of myself of course. But Uranex has the raw ingredients that could, with a generous portion of luck, put a resource together to rival Mantra's in the next 2 years.

It all depends on continued exploration success at Mkuju – and we aren't guaranteed good results in the future, just because we are off to a flying start with the first 61 holes.

Change of team – and a change of strategy

I'm calling Uranex an early exploration play, but Mkuju is not Uranex's first rodeo. The company has been around for a while, and already has a couple of other more advanced projects on its books.

In fact it already has a total 43 million pounds of uranium to its name, at an average grade of 169 ppm. Nice to have – but nothing to write home about.

Last September, Uranex had something of a makeover with a change of board and management. The new strategy was to put the existing assets on ice, and focus on exploring Mkuju.

The new team is reputable, has great prior experience, and has certainly changed the direction of the chart. Director Mark Chalmers stands out, with previous senior roles with global uranium leader Cameco, and major Australian uranium miner, Heathgate which runs the Beverly mine. He also advises the government as Chair of the Australian government's Uranium Council.

There are 174 million shares on issue, and no options. Acorn capital, a very savvy fund, holds 14% of the company's stock. I always like to see its name on the register. Geiger own 10%, and is also a class act. The largest holder is IMX Resources (IXR), which Uranex spun out of back in 2005, holding 29% of the stock. The two companies have some board members in common.

There have been days in recent months when more than \$3 million of stock has traded, but generally volumes have been closer to \$100,000 a day in recent weeks. So the liquidity is on the low side at the moment, so it may take time to buy (or sell) at the price you want, so please be patient.

The cash balance is \$5 million, which includes the proceeds from a small placement last week. This should be enough to fund the drill program for the rest of the year, but a capital raising will probably be needed early next year. The company could consider selling one of the non-core uranium assets to top up the kitty. Though, this is not the easiest time to get a good price for a small, low-grade, uranium deposit.

A good opportunity but what are the risks?

Uranex is an exciting uranium explorer, and looks to me like one of the best on our market.

The main risk is just that though – it is an explorer – and share price gains depend very much on the drill bit hitting more high-grade uranium in the future. Results have been great so far, and there are good indications of plenty more uranium out there. But the rest of the licence could be full of '*unobtainium*' for all we really know. The next six months' drilling will reveal a great deal.

This is the nature of speculating on explorers like Uranex. You take the chance that exploration is going to be successful. This uncertainty is not for everyone. We have improved our chances of success here by targeting a prospective region with successful neighbours, and waited for some decent results to get a taste of what's to come. The risk involved is potentially rewarded with high returns.

More cautious investors could put the stock on the watch list, and take a back seat until we have more results. Or even until the maiden resource figure early next year.

We are also at the mercy of the uranium price; and Uranex's share price actually moves very closely with it. If we saw uranium pull back then Uranex would pull back with it. I think the fundamentals for the uranium market look great, but this will always remain a risk.

The wider stock market is unpredictable right now, and there are plenty of factors that could give the whole market a cold bath. This would pull the value of all stocks down, particularly the more speculative ones such as exploration companies. This 'market risk' is something we take whenever we buy shares. It's comforting to think that it would take a very rough market indeed to send uranium stocks much lower than they already are!

Tanzania is an interesting country to invest in. It has British common law, and the infrastructure is good. Railway, road and ports are available close to Uranex's projects. The government is keen to push uranium mining.

But I must point out the country creates a bit of risk. It scores about the same as Papua New Guinea and Kazakhstan on the subjective 'Fraser's mining report'. It scores slightly better than Ghana with ONDD, the political insurers.

These reports are one way to measure risk, but

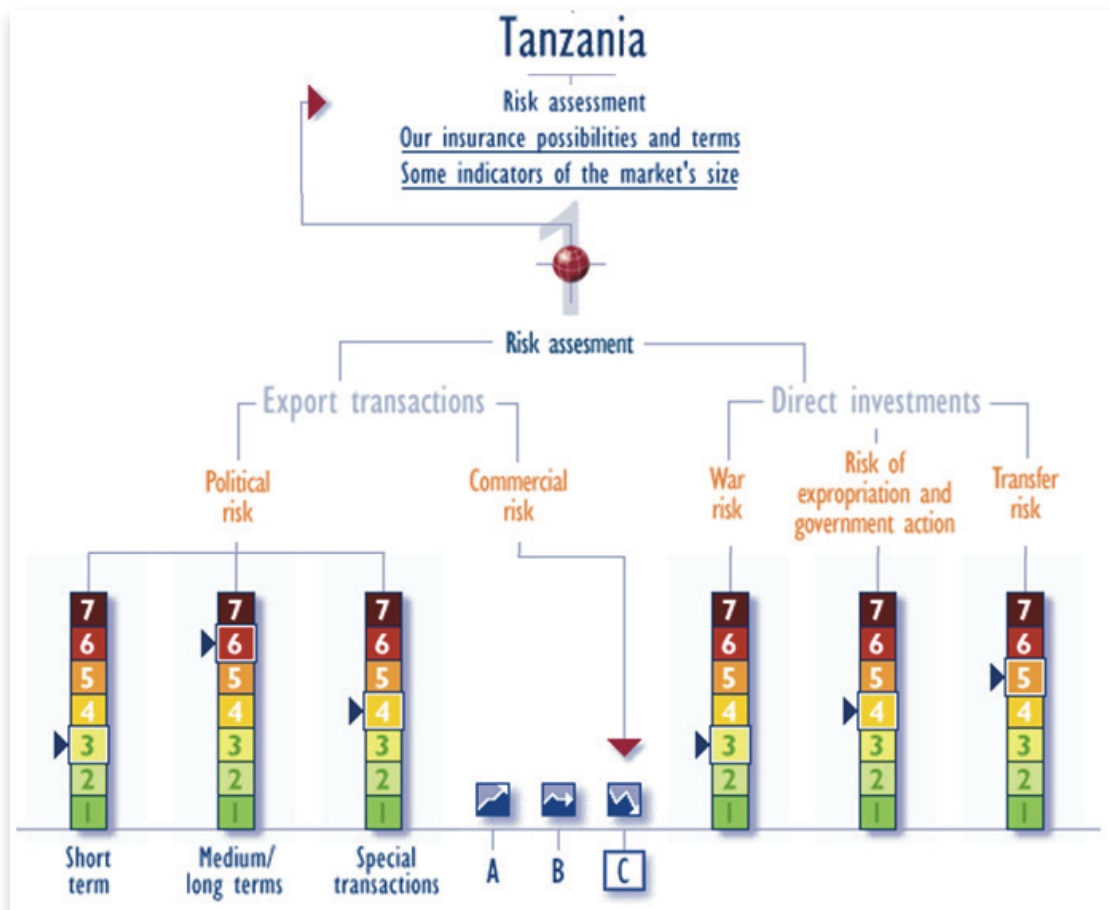
following the money can give you a better idea. Companies are currently investing more than \$4 billion in mining and infrastructure projects in Tanzania. And don't forget the Russians bought Mantra for over \$1 billion.

Tanzania is one of Africa's largest gold producers, with African Barrick, and AngloGold Ashanti both mining successfully there. Rio Tinto is comfortable enough there to establish a large, long-term coal project.

I think the ratings can be behind the curve sometimes. Neighbouring Democratic Republic of Congo (DRC) gets one of the worst scores in Africa – yet most of the majors are there and it is one of the main mining investment destinations in Africa. So you wonder whether they know something the ratings guys don't.

There was some loose talk recently from the Tanzanian government about taxing the mining industry. Since then they have back-peddled on this.

Tanzania – mid-range risk but getting better



Source: ONDD

A profits tax is not something that would apply to an explorer of course. But it could reduce potential future takeover valuations, so it is something to consider.

There are some risks we can foresee, and many we can't. Ultimately the risk is that you could lose some, or even all, of your investment. Please spread your risk by putting no more than 5% in one stock, don't invest anything you can't afford to lose, and don't borrow to invest. As Uranex is an explorer, the risks are higher than usual.

Action to take

Uranex (ASX:UNX) is an early stage, but very impressive, uranium explorer.

Tanzania has great geological potential. And Uranex is exploring right next to Mantra.

Results so far have been very promising. And the

pace of drilling steps up in the second half of the year. Then it's just six months until the maiden resource figure.

So the rest of 2011 should be an exciting period for the company. And I think in this time we will see positive investor sentiment return to the whole sector, bringing higher prices with it.

Next year looks good too, with scoping and feasibility studies, as well as more exploration.

As we then approach the uranium shortage of 2013, large, high-grade uranium deposits will be highly valued by the market.

By taking the calculated risk that Uranex (ASX:UNX) has what it takes, patient investors could make multiples on their original investment over the next few years.

Action to take: please take time to buy Uranex at the best possible price under 51 cents

D&D Recommendations

Company	Code	Entry/Date	Entry Price	Current Price	Gain/Loss	Buy/Sell
Precious Metal Shares						
Australian Silver ETF	ETPMAG	16/12/08	\$15.90	\$36.76	131.2%	BUY
Azumah Resources	AZM	12/05/10	\$0.37	\$0.56	51.4%	BUY
Troy Resources	TRY	16/12/10	\$4.04	\$4.17	3.2%	BUY
Gryphon Minerals	GRY	17/05/10	\$0.65	\$1.96	201.5%	BUY
Envirogold Ltd	EVG	08/04/11	\$0.20	\$0.18	-10.0%	BUY
Gold Road Resources	GOR	08/04/11	\$0.55	\$0.73	32.7%	BUY
Azimuth Resources	AZH	08/04/11	\$0.30	\$0.29	-3.3%	BUY
Alcyone Resources	AYN	06/05/11	\$0.118	\$0.125	5.9%	BUY
Argent Resources	ARD	10/06/11	\$0.24	\$0.265	10.4%	BUY
Energy Shares						
African Energy Resources	AFR	9/12/10	\$0.45	\$0.485	7.1%	BUY
A Cap Resources	ACB	12/07/11	\$0.34	\$0.43	26.5%	BUY
Uranex NL	UNX	27/07/11	tbc	-	-	BUY
Base Metal Shares						
Discovery Metals	DML	21/07/10	\$0.72	\$1.475	104.9%	BUY
Venture Minerals	VMS	13/08/10	\$0.37	\$0.38	2.7%	BUY
Kasbah Resources	KAS	24/09/10	\$0.237	\$0.245	3.4%	BUY
Metminco Limited	MNC	22/10/10	\$0.376	\$0.295	-21.5%	BUY
Potash						
Elemental Minerals	ELM	10/03/11	2.10	\$1.69	-19.5%	BUY

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