

Marenica Energy

Buy MEY @ A\$0.16

Rationale: Visit to company head office in Perth, 28 January 2010

Investors will know that I have been a long-time supporter of serious uranium companies. By that, I mean companies with real projects that have definite development potential. To this end we have essentially followed uranium plays in Namibia, with success on almost every count.

The reason is simple: companies benefit from the fact that the country is a uranium-friendly destination, both from a resource and regulatory perspective.

Long-time followers will be acutely aware that we have been discerning with respect to our uranium stock recommendations. I have had little interest in 'penny dreadful' uranium hopefuls that are big on promise but short on cash and potential. Nor are we interested in companies exploring in parts of the world where sovereign risk issues are unacceptably high.

This brings us to Namibia. Rio Tinto, a major player in the country for four decades now, just a few years ago committed to a major expansion of its Rossing uranium mine (the world's biggest open-pit uranium source) after previously contemplating its closure. This is important, as Rio subsequently put its large Kintyre uranium deposit in Western Australia up for sale.

In my view, Rio's actions speak volumes about where it sees the better growth prospects for its uranium business occurring over the next decade and more. This is why we prefer Namibia as a uranium investment destination.

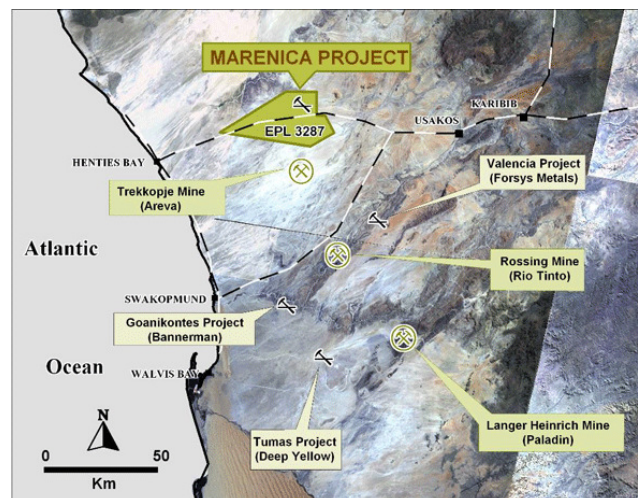
And what about Western Australia? **Whilst uranium projects now potentially have the green light, they still have to prove their commercial viability. Simply possessing a deposit is no guarantee of commerciality.** BHP Billiton's Yeelirrie deposit is likely to be the first cab off the rank, but it won't see commercial production until at least 2014.

So we haven't changed our fundamental view that an established uranium mining destination like Namibia offers far more appeal for the prospective uranium investor.

This brings us to Marenica Energy, which is our first coverage of the company since its name change from West Australian Metals. We had the opportunity to meet up with three members of the company's board on a recent visit to Perth.

As investors may know, the company has been involved in uranium exploration and evaluation in Namibia for some time now. WME's 80%-owned Marenica project lies within the same uranium province as the Rossing and Langer Heinrich uranium mines and immediately north of the large Trekkopje mine, which is currently being developed by Areva.

Previous exploration, notably by the Goldfields Group of South Africa, over the northeast portion of the EPL, outlined several uranium-mineralised areas. More than 32,000 metres of drilling was conducted in the course of delineating secondary uranium deposits that are associated with palaeo-drainage channels and weathered bedrock.



The region boasts good tarred and unsealed roads and an accessible power grid, but the main issue for Namibia is a good supply of fresh water. Areva have constructed a large desalination plant on the coast as part of the infrastructure required for their development, which may also be able to supply other operations with fresh water in the future. Their initial start-up is something like 25 million cubic metres of water a year.

So far, Marenica has completed more than 35,000 metres of RC drilling and over 1,000 metres of diamond drilling within the project area. **The company is about to embark on a scoping study, which will examine the best potential economic outcomes for the project.**

In mid-2008, the company defined an Inferred resource of 34 million pounds of contained uranium, but subsequent drilling has boosted the contained uranium to an Indicated and Inferred resource totaling around 38.6 million pounds. From our Perth meeting we anticipate a resource upgrade around the second week of February that will further upgrade that number, with a ballpark figure somewhere in the vicinity of 50 million pounds.

The company's short term plan is to bring the Marenica project into production, with the Scoping Study, due for completion during mid-May 2010, likely to determine the economic viability of the project. One of the key aspects in my view will be the opportunity to more than double the overall head grade of the deposit to around 900ppm through specific ore-sorting methods. This will drastically lower the amount of material to be moved and treated through the plant.

With a strip ratio of around 3:1, mining costs should be suitably modest, which in turn will assist with project economics. In my view, an operation producing between 1.5 million – 2.0 million pounds a year could be justified based on current project parameters, with any new discoveries (particularly if they include more higher-grade material) adding substantially to the resource base and potential returns of the project.

Marenica has around 550 sq km of exploration ground that it is endeavouring to explore more expansively during 2010. From our presentation in Perth we understand that there are 16 new targets to be investigated, with A\$2.5 million to be spent during the first half of the year alone.

From a corporate perspective there has been good news, with French group Areva NC recently taking a 10.6% stake in Marenica by acquiring Polo Resources' former shareholding. With Marenica situated just 30km from Areva's Trekkopje operation, there is certainly huge scope in my view for the development of a lasting relationship with Areva.

And what about Marenica from a valuation standpoint? Well, the evidence is truly compelling.

I have sifted through a host of uranium-related takeovers and corporate deals over the past couple of years and a reasonable 'rule of thumb' would suggest a conservative valuation of around US\$5 per pound of contained U3O8. In actual fact, many of these deals have been completed at a higher purchase price.

The value equation with respect to Marenica lies in the fact that the company currently trades at a valuation of less than US\$2 per pound based on its current ASX share price of A\$0.145 share price. ***If we applied what I consider to be a still-conservative in-ground valuation of US\$5 per pound, this generates a share valuation of A\$0.36 per share.***

Accordingly, I would recommend Marenica Energy (MEY) as a Buy around \$0.16.

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Disclosure: Gavin Wendt, who is a Financial Services Representative of Summit Equities Ltd ACN 097 771 634, and is a director of Mine Life Pty Ltd ACN 140 028 799, compiled this comment. At the date of this report Gavin Wendt held shares in Marenica Energy. At the date of this report, Summit Equities or their associates within the meaning of the Corporations Act, may hold interests in shares issued by Marenica Energy. Gavin Wendt received no fee or any other form of remuneration for the preparation of this report.

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