

# MKY Resources to merge with Callabonna Uranium

## ***“Forming a new company with drill ready projects in the Frome Embayment, South Australia and strengthened management and financial backing”***

ASX Announcement  
23 July 2009

MKY Resources Ltd  
ACN 099 247 408

### Highlights

- **MKY Resources Limited (“MKY”) to merge with Callabonna Uranium Limited (“Callabonna Uranium”)**
- **As part of the agreement Callabonna Uranium’s cornerstone investor SK Energy Co., Ltd has agreed to provide an additional \$2 million in capital to MKY Resources.**
- **Callabonna Uranium brings drill ready projects in the Frome Embayment area of South Australia as well as complimentary projects in the Northern Territory.**
  - **Their flagship Curnamona Project has “drill-ready” sandstone channel uranium targets defined by airborne electro-magnetics.**
  - **The Curnamona Project is supported by an extensive tenement position (3533km<sup>2</sup>) and is close to the producing mine at Beverley and advanced projects at Oban, Honeymoon and 4 Mile.**
- **The expanded Company will bring together:**
  - **an experienced exploration team with a track record of discovery**
  - **a strong corporate team and Board backed by a significant cornerstone investor; and**
  - **a prospective package of uranium projects in South Australia, the Northern Territory and Queensland.**

MKY Resources Limited (ASX Code: MKY) (“MKY”) has entered into an agreement to acquire unlisted uranium explorer Callabonna Uranium Limited (“Callabonna Uranium”). This will involve the issue of new MKY shares in exchange for all Callabonna Uranium shares on issue. The transaction, which is conditional on inter alia to shareholder approval, will create a new focussed uranium exploration company with a very attractive portfolio of uranium properties in South Australia, the Northern Territory and Queensland.

The acquisition brings together a strong Board and a management team with extensive operational and technical management experience and a track record of exploration success, project financing and shareholder value creation. Additionally the deal also brings a cornerstone investor, SK Energy Co., Ltd (a subsidiary of SK Holdings one of Korea’s largest companies) (“SK Energy”), who have committed to provide an additional \$2 million capital to MKY.

Callabonna Uranium is a uranium explorer with a number of uranium projects in the:

- highly prospective Frome Embayment area of South Australia,
- Arunta region of the Northern Territory; and
- Georgina Basin area of the Northern Territory.

The expanded company will likely be renamed and the revised board will have current Callabonna Uranium non-executive Chairman Peter Nightingale and current MKY Managing Director Stephen McCaughey remaining in their respective roles. Current MKY non-executive Chairman, Phil Harman will join the board of the expanded company as a non-executive Director and will be joined by Callabonna Uranium Director Michael Raetz and a representative from SK Energy.

Commenting on the merger Mr McCaughey said “MKY has been looking for opportunities to diversify its project portfolio for some time and to be able to create a combined company with drill ready sandstone uranium targets in the Frome Embayment area is very exciting. The Frome area of course needs no introduction as one of the best mineralised uranium terrains in Australia with mineralisation typically being very high grade (such as at Beverley, 4 Mile and Honeymoon) and amenable to in-situ leaching with all the Capex advantages associated with this type of development.”

“The strong portfolio of projects with the additional \$2 million capital provided by SK Energy and their welcomed support and involvement going forward, all position the revitalised company extremely well for exploration success in one of Australia’s premier uranium provinces.”

Callabonna Uranium’s Chairman Mr Peter Nightingale added “ We look forward to working with the MKY team. The merger of our collective people and projects is a good fit and creates a compelling story. We have successfully mapped one of the largest areas ever in the Frome Embayment in search of palaeo-channels with airborne electromagnetic surveys, and now we will get the certainty of funding to drill this year. Our current MD Mike Raetz is a well respected geologist based in Broken Hill and ideally placed to oversee the operation of field programs in the Curnamona Project area as Operations Manager and Dr Andrew Wilde has an enormous amount of experience in uranium research and exploration and will be staying on with the new company as Exploration Manager. This is good for the future growth of the Company”.

Under the terms of the agreement MKY will issue 477 million MKY shares in exchange for the 39.5 million current issued shares in Callabonna Uranium. Completion of the agreement is conditional on:

- the conversion of 5 convertible notes in Callabonna Uranium by SK Energy into shares in Callabonna Uranium and SK Energy agreeing to the sale of those shares to MKY in exchange for an additional 60 million shares in MKY and the discharge by SK Energy of the fixed and floating charge over MKY;
- MKY receiving a commitment from SK Energy International ('SKEI') to subscribe for 120 million fully paid ordinary shares plus 60 million options (each exercisable at 2.5 cents within two years from the date of grant) for a consideration of \$2.0 million.
- MKY obtaining all necessary regulatory and shareholder approvals to give effect to the acquisition of Callabonna Uranium.

The Company has also granted SK Energy International the right, subject to Australian laws, to purchase at least 20% of the Company’s uranium concentrate production on terms no less favourable to SK Energy International than the terms granted to any third party.

SK Energy International is a part of the SK Energy Co. Ltd group, one of the most significant enterprises in the Asia Pacific energy marketplace. Founded in 1962 as Korea’s first oil refiner, SK Energy, a subsidiary of SK Holdings, is Korea’s largest, and Asia’s fourth largest, refiners and is one of the world’s leading energy and petrochemical companies with 5,084 employees, US\$24 billion in sales and 26 offices spanning the globe.

Further details of the Callabonna Uranium projects and the proposed Board of Directors accompany this announcement. Further details in respect of the acquisition agreement and placement to SK Australia will be contained in the notice of meeting sent to shareholders of MKY to consider and approve the transactions which will be finalised and despatched to shareholders in the next month.

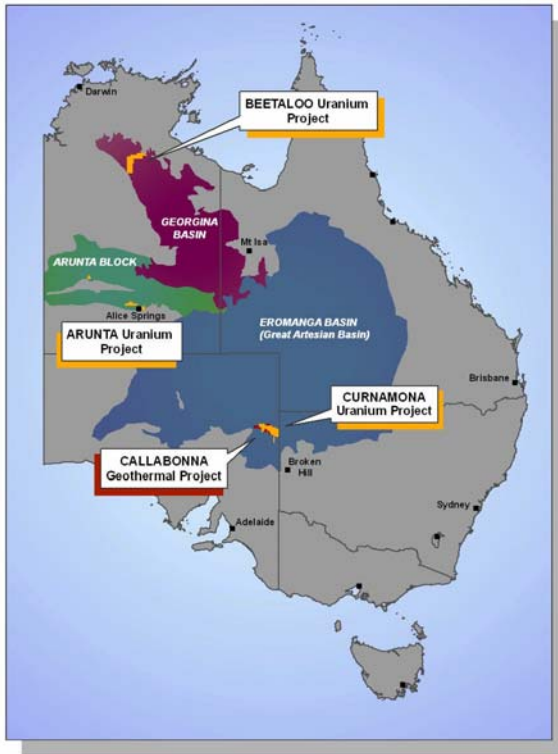
For further information please visit <http://www.mkyresources.com.au/index.html> or <http://www.callabonna.com.au/index.html> or contact:

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Non-Executive Chairman  
Callabonna Uranium limited  
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The information in this announcement that relates to Exploration Results, Mineral Resources, or Ore Reserves is based on information compiled by Stephen McCaughey. Mr McCaughey has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking. This qualifies Mr McCaughey as a Competent Person as defined in the 2004 edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Mr Stephen McCaughey consents to the inclusion in the announcement of the matters based on his information in the form and context in which it appears.





**Figure 1. Location Map of Callabonna Uranium**

- A conceptual style of uranium deposit associated with oilfield sands in the Beetaloo Basin in the Northern Territory.

Background – Callabonna Uranium Limited  
 Callabonna Uranium Limited holds 13 mineral properties covering an area of 8,998 square kilometres in three geological provinces: the Curnamona Craton (Frome Embayment), the Arunta Block and the Beetaloo Basin (Figure 1). The properties are 100% owned through subsidiaries Frome Uranium Pty Ltd, Arunta Uranium Pty Ltd and Beetaloo Uranium Pty Ltd. One tenement (EL26006) in the Arunta Project is the subject of a Joint Venture Farm in by NuPower Resources Limited.

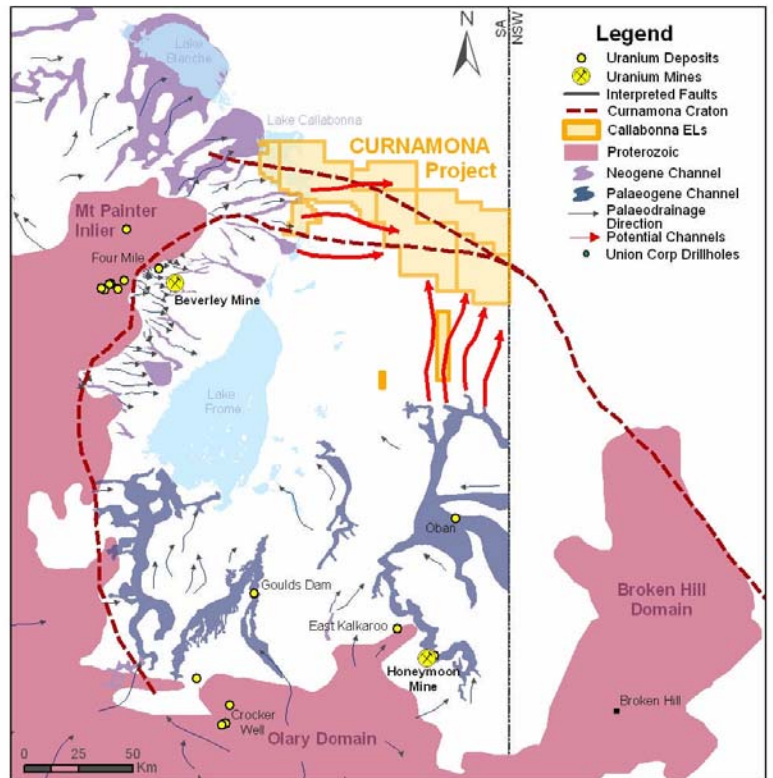
The mineral properties hold potential for uranium discoveries in a number of different settings:

- Sediment-hosted uranium deposits in palaeo-channels in the Frome Embayment, overlapping the north-eastern margin of the Curnamona Craton in South Australia
- IOCG style uranium deposits in basement rocks of the Curnamona Craton or Mount Gee hydrothermal vein style uranium deposits in extensions of the Mount Painter terrane
- Uranium deposits hosted in calcrete in palaeo-channels that reflect present day drainages in the Arunta Block in the Northern Territory.

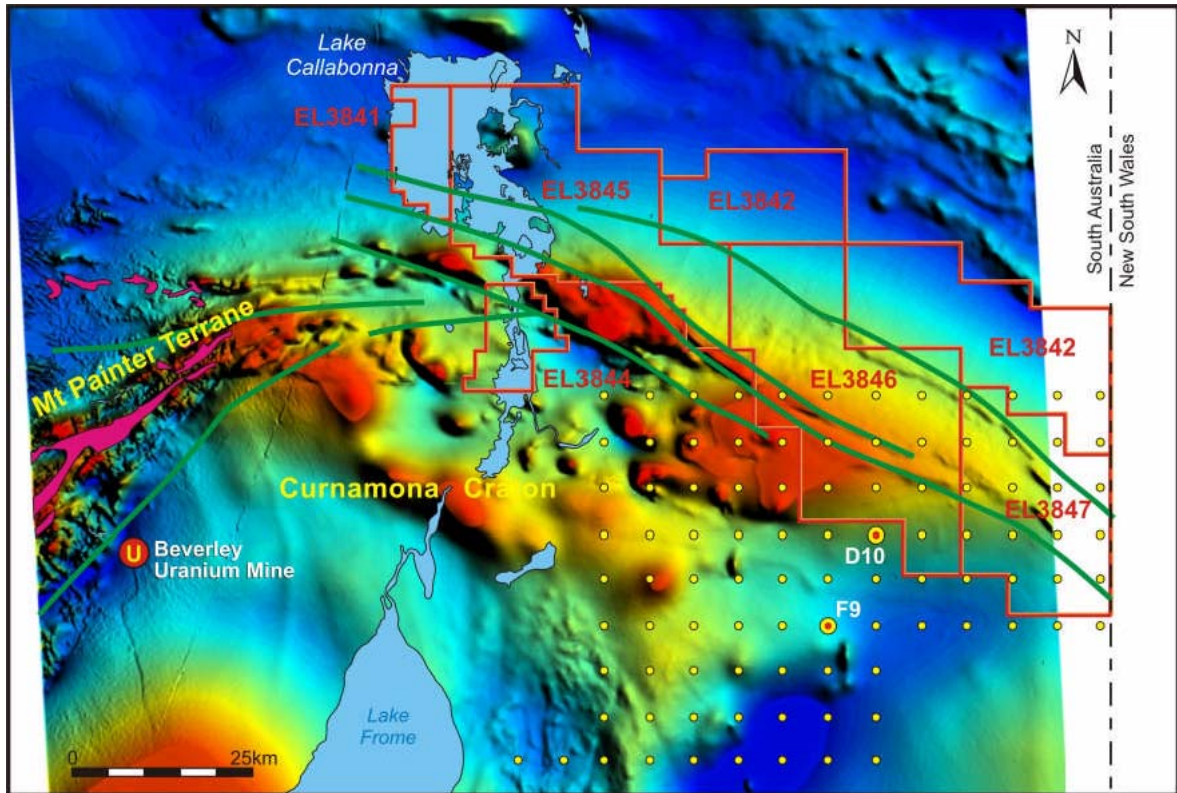
Callabonna Uranium's flagship project, the **Curnamona Project**, comprises a large tenement holding located over the north-eastern tectonic margin of the Curnamona Craton in South Australia. There is potential for the discovery of sedimentary uranium deposits in Tertiary palaeo-channel sediments previously identified during reconnaissance exploration in 1973. The geological setting of the Callabonna Uranium tenements is analogous to the Beverley and Beverley – 4 Mile sediment-hosted uranium deposits in what is traditionally known as the Frome Embayment. Basement structures along the north-eastern margin of the Curnamona Craton have been reactivated and extend upwards into the younger cover. It is envisaged that these structures controlled development of palaeo-drainage and subsequent groundwater flow patterns as reportedly occurred at Beverley. The tenements cover a large area with unexplored potential.

A channel was previously identified by Union Corporation Pty Ltd during the 1970's as part of a widespread grid drilling programme. Drillholes D10 and D9 intersected anomalous uranium associated with the channel. Callabonna Uranium has an excellent opportunity to investigate the palaeo-channel environment, using modern exploration techniques, in what is considered to be the most favourable

**Figure 2. Curnamona Project Location showing margin of Frome Embayment, Uranium deposits and interpreted channels**



ties for  
**Figure 3. Curnamona Project leases with aeromagnetics showing the highly magnetic and uraniferous Mt Painter Block rocks continuing under the Curnamona Project area**



An Airborne Electromagnetic survey completed in 2008 by Callabonna Uranium over the entire Curnamona Project area was designed to delineate shallow (<120 metres) Tertiary aged channels within the basin sediments. The survey successfully delineated the location of several interpreted Tertiary channels.

Given the location of the Callabonna Uranium tenements proximal to known uranium deposits (Beverley, 4 Mile and Honeymoon) and the analogous geological setting of the area to that at Beverley, these interpreted channels represent high priority drill targets that are currently permitted and ready for drill testing. A drilling programme has been planned and permitted.

Additionally, Callabonna Uranium has recently finalised an agreement with Newcrest Operations Ltd for the acquisition of five tenements (EL's 3350 - 3354) in the Frome Embayment area to the south of the existing Curnamona Project areas. These tenements are subject to renewal from the South Australian government and no decision has been made as yet.

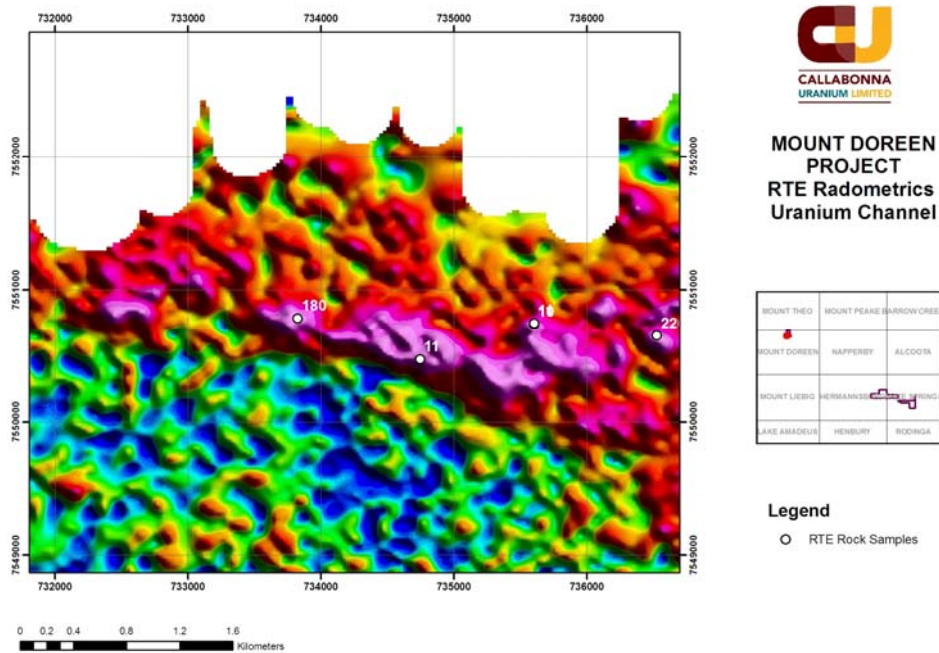
The **Arunta Project** comprises three lease areas and has potential for significant accumulations of calcrete uranium mineralisation in palaeo-channels that mimic the present day drainage as occurs at the nearby Napperby deposit (7.4Mlbs U<sub>3</sub>O<sub>8</sub>, *Toro Energy announcements*). The surrounding area is well endowed with uranium mineralisation. Basement rocks are thought to be the source for roll-front and calcrete-hosted uranium mineralisation in the region. There are more than 12 uranium prospects and a similar number of uranium stream geochemical anomalies shown on the NTGS GIS data compilation. Past explorers for other commodities in the Arunta tenements did not assay for uranium. Callabonna Uranium plans to investigate the potential for concealed uranium mineralisation in drainage areas and beneath recent soil cover. A programme consisting of reconnaissance sampling followed by drilling traverses across interpreted drainage areas will be used to test the area for near surface, calcrete-hosted uranium mineralisation.

An airborne electro-magnetic survey to map channels forms a pivotal part of Nupower Resources Limited farm-in agreement with Callabonna Uranium over EL26006 - Mount Hay.

Recent work on the Mt Doreen lease area has identified new targets in the Mt Doreen Granite. Analysis of previous data has shown up some interesting targets with anomalous uranium up to 220ppm recorded

in granites inside the tenement and areas adjacent to an area having visible carnotite noted at surface and with rock samples up to 2550 ppm U (3031 ppm U<sub>3</sub>O<sub>8</sub>) (NTGS Open File reports).

**Figure 4. Processed Radiometrics Image of the Mt Doreen Project area showing anomalous area cut by W-NW trending faults.**



The **Beetaloo Project** contains reservoir sands previously explored for oil and gas that have potential to host uranium in a similar fashion to a number of oil fields in the USA and China. Elevated gamma radioactivity has been found associated with reservoir sands in a thick sedimentary system of Mesoproterozoic age in the Beetaloo Basin. Previous work by major companies focused mainly on oil and diamond exploration with little regard for uranium. Oil exploration drilling has identified potential for discovery of uranium deposits in reducing environments developed in organic-rich sandstones or related to hydrocarbon gas leakage in the basin. A potentially attractive structural setting for accumulations of uranium may exist along the margin of the basin where Callabonna Uranium holds tenements. Re-evaluation of the large oil exploration data base and further basin studies to determine possible uranium source areas are required to develop the concept and identify drill targets.

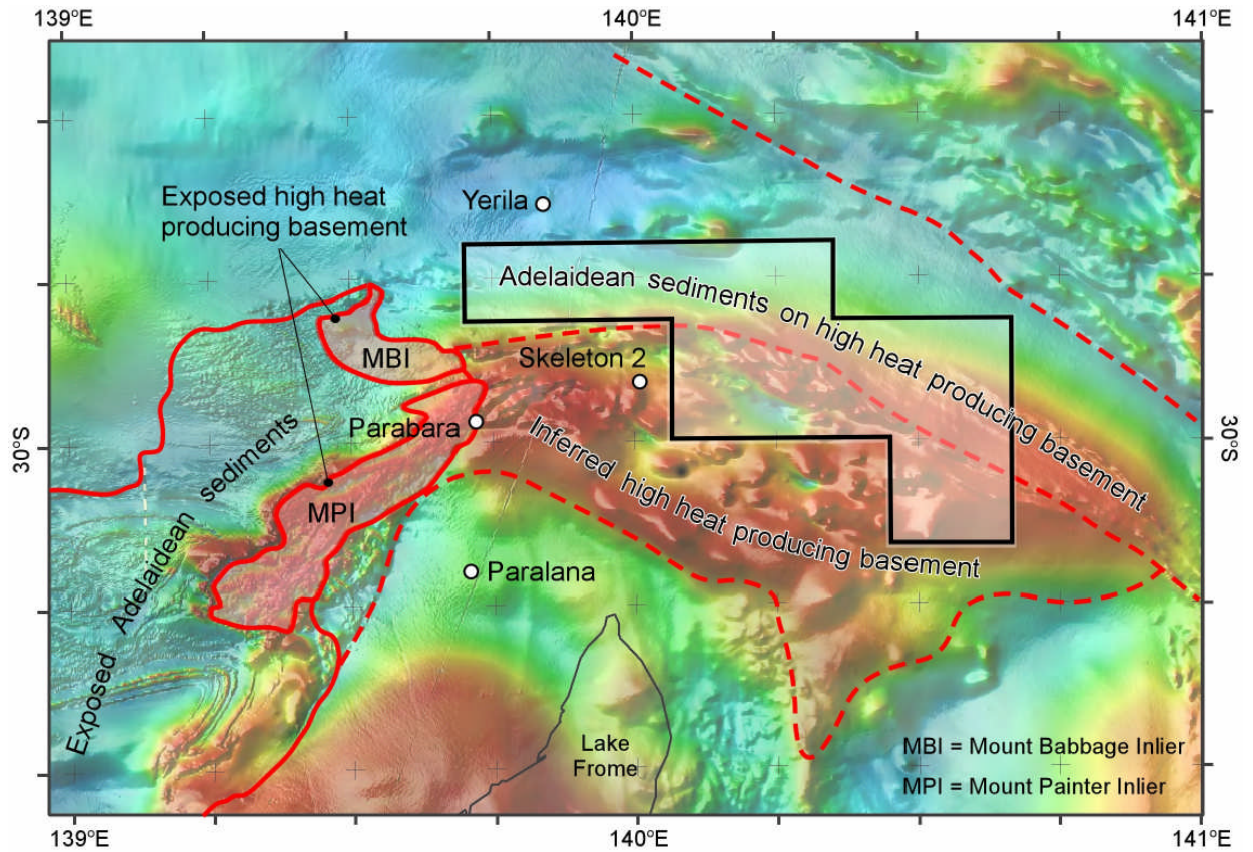
Callabonna Uranium's wholly owned subsidiary, **Callabonna Energy** also holds **Geothermal Exploration Licences** over an interpreted extension of the high heat producing Mount Painter Inlier totalling approximately 2,875 km<sup>2</sup> in area.

Callabonna Uranium's Geothermal Exploration Licences (GELs) overlap the Company's Curnamona Uranium Project in the Frome Embayment. Here, the link between uranium and geothermal exploration potential is not surprising, because the primary source rocks for uranium, typically granite, naturally contain high levels of radio nuclides that produce heat from radioactive decay. This makes the area attractive for geothermal energy exploration and a number of companies are pursuing similar opportunities in the region. Geothermal exploration aims to find rock temperatures approaching 200°C at depths of up to 5 kilometres. Basement rocks of Proterozoic age in the area known as The South Australia Heat Flow Anomaly, produce about two times more heat than the crustal average and locally, in the Mount Painter Inlier, about three times the global crustal average.

Callabonna Uranium's geothermal prospect is located adjacent to those held by Petratherm immediately to the east of the Mount Painter Block in South Australia. The Mount Painter Block basement is interpreted to continue to the east beneath the Callabonna Uranium license areas where it is covered by substantial thicknesses of basin sediments that act as a thermal blanket with low thermal conductivity. Geothermal energy may be extracted from hot rocks at depth by passing water through them and bringing the super-heated water to the surface to extract the heat, and drive a turbine to produce electricity. It has been estimated that 1 cubic kilometre of hot granite rock at 250°C has the stored energy equivalent of 40 million barrels of oil. ([www.geodynamics.com.au](http://www.geodynamics.com.au)).



**Figure 5. Callabonna Uranium's Geothermal Project leases covering hot radiometric basement rocks and overlying Adelaidean sediments which provide a thermal blanket trapping the heat produced from the basement**



**Table 1 – Callabonna Uranium Tenement Position**

Tenement Numbers	Location	Holder	Status
EL3841, EL3842, EL3844, EL3845, EL3846, EL3847, EL4224	South Australia	Frome Uranium Pty Ltd	Granted
EL26040, EL26006, EL26012	Northern Territory	Arunta Uranium Pty Limited	Granted
EL25956, EL25957, EL25958	Northern Territory	Beetaloo Uranium Pty Limited	Granted
GEL296, GEL304, GEL305, GEL306, GEL307, GEL350	South Australia	Callabonna Energy Limited	Granted
EL3350, EL3351, EL3352, EL3353, EL3354	South Australia	Newcrest Operations Ltd (subject to transfer to Frome Uranium Pty Limited as per Sale Agreement dated 7 May 2009 between Newcrest and Frome Uranium Pty Limited)	Subject to renewal application to PIRSA



## Proposed Board

### **Peter James Nightingale - Non-Executive Chairman**

Peter Nightingale graduated with a Bachelor of Economics degree from the University of Sydney and is a member of the Institute of Chartered Accountants in Australia. He has worked as a chartered accountant in both Australia and the USA.

As a director and company secretary, Mr Nightingale has, for the past 20 years, been responsible for the financial control, administration, secretarial and in-house legal functions of a number of private and public listed companies in Australia, the USA and Europe including Bolnisi Gold NL, Palmarejo Gold and Silver Corporation, Pangea Resources Limited, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals N.L. and Mogul Mining NL. Mr Nightingale is currently a director or company secretary of Biotron Limited, Cockatoo Coal Limited and Planet Gas Limited.

### **Stephen Neil McCaughey - Managing Director**

Stephen is an Exploration Geologist with 21 years experience including 14 years with BHP. He has been Managing Director of MKY since July 2008. Prior to this he was Exploration Manager for Aura Energy (AEE) where he led the exploration effort across Australia, Africa and Sweden, and in particular, specific uranium exploration programs.

Mr McCaughey has a broad range of skills, with project experience ranging from strategic project generation and greenfields exploration through to development evaluations, feasibility of brownfields discoveries, joint venture negotiations and project acquisition due diligence.

Mr McCaughey has worked in South America (Chile and Peru), throughout Australia, Africa and Europe and has experience with most mineralisation types and provinces. As Exploration Manager and Principal Geologist for BHP Copper he led the exploration team responsible for several significant Cu-Au discoveries in the Tintaya Cu province of Peru including the Antapaccay porphyry copper deposit which currently stands at 527Mt @ 0.72% Cu (now Xstrata owned)

Stephen is a first class Honours graduate in geology from Monash University and has an MBA from Melbourne Business School. He has worked in Strategy Consulting with Booz Allen and in Banking and Finance with one of the major Australian banks.

### **Phillip Harman- Non Executive Director**

Mr Harman is a professional geophysicist who spent more than 30 years working for BHP Billiton in minerals exploration in a broad number of roles including Exploration Manager of South America, Exploration Manager of Western Australia and Chief Geophysicist

His experience in BHP spanned both technical and managerial roles here in Australia and overseas. He is broadly networked throughout the international mining business development and exploration community, has experience in creating and managing junior exploration companies and understands capital markets, having raised risk capital for exploration through the ASX and on AIM in London.

Mr Harman was Managing Director of ASX listed Gravity Diamonds Limited from August 2002 until its acquisition by African miner Mwana in May 2007, and is currently the Chairman of Gippsland Offshore Petroleum after being appointed to the role in November 2004.

### **Michael Curt Raetz - Director**

Michael Raetz is an exploration geologist with 35 years' experience in exploration for base and precious metals and uranium. He worked for BHP Minerals Discovery from 1970 to 1999, discovering several important base-metal, tin and gold prospects in Australia and Indonesia during this time. He gained mining experience as Senior Mine Geologist of Cadjebut Zinc and contributed to the discovery of the Kapok ore body.

Mr Raetz was Program Leader and Principal Geologist for the BHP World Minerals Discovery Australian Reconnaissance Group from 1996 – 1999. Under Mr Raetz's leadership, BHP's exploration in Australia was revitalised with new projects resulting in several valuable exploration properties.

Between 1999 and 2006, he was a Senior Research Fellow in Economic Geology at Monash University, researching global Proterozoic base metals as part of the BHPB/Australian Research Council joint research project. In 2005, with Andrew Wilde, he acquired and developed the Murphy unconformity uranium exploration play in the Northern Territory, currently a flagship project in Bondi Mining Ltd.

Mr Raetz is founding director of Global Discovery Pty Ltd and its trading subsidiary Post Graduate Niche Geoscience, a successful international geological consultancy. He is a Member of the Geological Society of Australia and the Victorian Chamber of Mines Exploration Committee. He is also a member of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mike is based in Broken Hill and is currently Managing Director of Callabonna Uranium Ltd.

### **SK Energy Appointed Director**

To be Advised

