

Macusani Yellowcake Inc. (TSX-V: YEL)
 Initiating Coverage

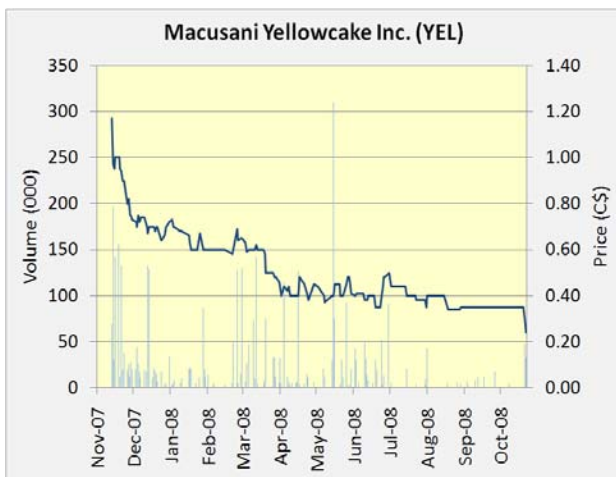
Rating: Buy
 Target: \$0.32

Key Data (in C\$)	
Industry:	Mining
Price:	\$0.14
52 Week Range:	\$0.10-\$1.17
Market Cap:	\$4.3 mil.
Shares Outs.:	31.9 mil.
Book Val./Share:	\$0.21
Price/Book:	0.6x
EV/Book Value:	0.2x
Net Gearing:	0.0%
2007 EPS:	(\$0.24)
2008 EPS Est.	(\$0.08)

Initiating Coverage on Macusani Yellowcake Inc.; Early Stage Uranium Explorer with Positive Preliminary Results

Investment Summary

Macusani Yellowcake Inc. (TSX-V: YEL) is a mineral exploration company that holds various mining claims and concessions on several properties in southeastern Peru. Although preliminary drilling results have thus far been positive, the company continues to engage in testing to identify specific metals and intends to release a resource estimation for one of its targets in the current quarter. We are initiating coverage of YEL shares with a Buy rating and a target price of \$0.32, which is based on a market multiple of exploration assets. We believe the true value of the company will be unlocked as Macusani completes resource estimates at each of its seven anomalies, with the first resource estimate potentially coming before the end of November.



Mining Exploration Assets

YEL is engaged in the business of mineral exploration on several mineral property claims in Peru.

Macusani Project

The Macusani uranium property is spread over an area of approximately 21,300 hectares and consists of 41 exploration concessions and 12 claims covering a large portion of the Macusani Uranium District in Puno, Peru. The properties are located in the vicinity (about 200 km north) of the Peruvian city of Juliaca and the plateau is 4,200-5,000 meters high.

YEL has primarily focused on exploring in two areas – Colibri II and Colibri III, which are located near the village of Isivilla. Both areas cover 600 hectares and lie within the Macusani District in southern Peru.

Exploration efforts for the Colibri II and Colibri III properties on the Macusani Plateau have resulted in the discovery of a large radiometric anomaly based on rock samples that were collected as part of a systematic geochemical survey. Currently, the company is in Phase I of a 300-hole, 20,000-meter drilling program underway with 2 diamond drills.

On the Colibri II property, YEL has identified a target area of 4,800 meters long and 600 meters wide by using ground radiometrics. YEL has conducted a 100-hole drilling program to evaluate the Colibri II and Colibri III areas where drilling to date has identified uranium mineralization down to 65 meters.

Macusani’s recent column leach and bottle roll tests have

Company Description: Macusani Yellowcake Inc. is an Ontario-based corporation formed by an amalgamation on October 31, 2007. The predecessor corporation (“Old Macusani”) commenced operations in November 2006. The other predecessor corporation (Silver Net Equities Corp.) was classified as a Capital Pool Company under TSX Venture Exchange policies and the principle business was to identify and evaluate potential business acquisition. Old Macusani was involved in exploring uranium in the Macusani Plateau of southeastern Peru, which will also continue under the consolidated entity.

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shown highly favorable results in the Colibri II & III areas. The tests indicate a lack of masking elements resulting in uranium recovery of 96%.

However, we also believe that when compared to the drilling results in the same area for its peer Vena Resources, Macusani's drilling results to date have not reached their full potential. YEL's best drill hole result to date was drilled to a depth of 31.3 meters from the surface and found a U3O8 grade of 0.2356% (or 4.71 lb/tonne), whereas Vena's best drill result from the Macusani region contained 5.8 meters grading 0.452% U3O8. Vena's positive result indicates to us the potential for higher grades on YEL's properties.



On July 7, 2008, Macusani contracted GBM Minerals Engineering Consultants Ltd. (GBM) to perform an order of magnitude study for uranium discovery at Colibri II and Colibri III. An order of magnitude study, also known as a preliminary economic evaluation study, is being conducted in order to estimate the inferred mineral resources as well as to conceptualize a mining plan, estimate total capital costs, and assess the economic impact that the area deposits may have on Macusani Yellowcake and its shareholders. To date, Macusani has 84 mineralized holes with high grade hits reflecting an overall grade of half-a-pound per ton of resource. YEL expects the results of its resource estimation study from the geological consultants during the coming month.

Other Properties

The company also retains significant uranium sites in southwestern Peru along with other properties. Among these sites are Colibri I, Munani, Lagunillas, and Rio Blanco, all of which are located in the Puno region. Drilling work on these early stage properties is expected to begin in the next couple of months. The management intends to focus on Colibri I and also is highly positive on the potential at Lagunillas property. In addition, YEL is currently undergoing negotiations with various companies across the globe to undertake acquisitions of prospective uranium-rich properties and mining companies.

Industry Analysis

Three countries, namely Australia (contains 24% of uranium resources), Kazakhstan (17%) and Canada (9%), account for more than half of the world's uranium resources. Total uranium deposits in these three countries are estimated at 4.7 million tonnes. In 2007, annual worldwide uranium production was approximately 41,280 tonnes and was dominated by Canada and Australia, who together produced about 44% of annual mine output. Following these two uranium producing countries are Kazakhstan, Niger, Russia, and Namibia. In 2007, these six countries combined accounted for approximately 83% of all mine production. The industry is dominated by seven companies, each producing more than 2,000 tonnes of uranium annually and accounting for 85% of total production.

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One of the most important peaceful uses of uranium is power generation and approximately 16% of the world's electricity is generated from nuclear reactors. Many industrialized nations depend on nuclear power generation, particularly for electricity, including the United States (19%), Germany (32%), Japan (30%), Hungary (38%), Sweden (48%), France (78%), and Lithuania (69%). Worldwide, there are 439 operating nuclear power reactors in 31 countries with total installed capacity of 372.2 GWe.

The world's nuclear industry is constantly growing. Among the factors that have attributed to a renewed interest in nuclear energy are improved reactor performance, extended fuel cycles, increased generating capacity, and reduced operating costs. In addition, there are concerns regarding the global oil supply and global warming, which have also contributed to a revival in nuclear power. According to the World Nuclear Association, there are currently 36 new nuclear plants under construction, another 93 planned, and an additional 218 proposed. Furthermore, only 55% of the world's reactor requirements are supplied through primary uranium production (mining). The remaining demand is met from secondary sources such as ex-military weapons, excess commercial inventories, reenrichment of mining tailings, and spent fuel reprocessing. According to the Nuclear Energy Agency, "secondary sources are expected to decline in availability, particularly after 2020, and therefore reactor requirements will have to be increasingly met by primary production."

The potential growth in demand for uranium, coupled with limited mining capacity expansion and a depletion of secondary sources of uranium such as ex-military weapons, could have a favorable effect on uranium prices. We therefore view the prospects for the uranium industry as positive over the long term.

Uranium in Peru

Peru is one of the world's most important mining countries that contain various outstanding mineral resources. The country also offers a stable economic and legal environment for the free trade of minerals along with an efficient tax system. Peru also supports competitive land title procedures, which have contributed to investments by some of the world's most productive and lowest-cost mine establishments.

Historical documents from the Peruvian Institute of Nuclear Energy (IPEN) report that the Macusani Region may contain 30,000 tonnes of inferred uranium-bearing mineralization with average grades of U₃O₈ that range between 0.2% and 12.0%. Third party exploration of the Macusani area has also identified significant outcrops of the uranium-bearing mineral "autunite" in small fractures around many areas. Autunite contains 51% uranium by weight and converts into 60-65% U₃O₈.

Financial Review and Outlook

As a newly formed company that engages purely in exploration activities, Macusani Yellowcake has not generated revenues to date. YEL did however report earned interest income of \$17,000 for the quarter ending June 30, 2008 (3Q08). During the same period, net loss totaled \$438,000, down from \$915,000 due to lower stock-based compensation and lower investor relations/marketing fees in the current quarter. Exploration expenditures decreased \$468,000 to \$489,000 in 3Q08 vs. the year-earlier quarter. The decrease primarily reflects lower property acquisition activity.

As of June 30, 2008, YEL had a book value of \$3.94 million for its mineral properties. As of late October, the company had approximately \$2.2 million in cash as the result of a recent private placement. The company will be using its own drills with no contract driller engaged and is one of the reasons for what appears to be a low cash burn rate of \$170,000 per month.

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Financial Summary

All figures in C\$	2007	2008E	3Q08	4Q08E
Revenue	89,390	59,500	16,630	12,000
Net Income	(4,032,530)	(1,900,000)	(438,419)	(169,000)
EPS	(\$0.24)	(\$0.08)	(\$0.02)	(\$0.01)

Valuation, Rating, and Target

As none of the company's projects have any known resource estimates, we have valued YEL shares based on the average ratio of enterprise value (EV) to mineral assets (book value) of the company's peers. We applied the peer group average multiple of 2.1x to the book value of YEL's mineral assets to arrive at our target price of \$0.32 a share. Therefore, based on the company's progress and our relative valuation, we recommend a Buy rating on YEL shares and a target price of \$0.32 per share. This valuation does not capture the upside potential for any of the company's projects at this stage of exploration. We view this target price as merely a starting point for YEL shares and anticipate updating the target as resource estimates are completed at each of the company's targeted anomalies.

Peer Group Comparison and Valuation Analysis

Company	Ticker	Price	Shares Outs. (mil.)	Enterprise Value (mil.)	Mineral Assets (mil.)	EV/Mineral Assets
Hathor Exploration Ltd.	HAT	\$1.23	75.2	\$65.2	\$47.8	1.4x
Blue Sky Uranium Corp.	BSK	\$0.04	32.0	\$1.0	\$0.4	2.4x
Cardero Resource Corp	CDU	\$1.65	57.7	\$89.6	\$23.0	3.9x
Nortec Ventures Corp.	NVT	\$0.10	60.8	\$4.9	\$3.7	1.3x
Nuinsco Resources Ltd.	NWI	\$0.08	172.4	\$13.2	\$9.3	1.4x
<i>Average</i>						2.1x
Macusani Yellowcake Inc.	YEL	\$0.14	31.9	\$2.1	\$3.9	0.5x

Data as of October 24, 2008

Conclusion

Although no transactions are in progress, Macusani continues to research potential opportunities for new acquisitions and business partnerships. We believe YEL may offer the potential for similar market appreciation as that of its peers. The management team has considerable in-country experience in the mining industry and is capable of ensuring that the Macusani Project along with other projects are in alignment with the Peruvian government and its citizens.

Given the current level of interest in uranium assets along with rising uranium prices, we believe that YEL shares offer an attractive opportunity for risk-oriented investors with a risk appetite for early-stage mineral exploration companies. Our target price of \$0.32 does not fully reflect the upside potential if YEL is able to determine that Macusani and other regions have proven resources and reserves.

Management

Alan Ferry, Chairman and Director: Mr. Ferry has more than 25 years of experience in the investment industry as well as considerable experience in mining analysis, mineral economics, and corporate finance. He is a member of numerous professional institutions including the Toronto Society of Financial Analysts, the Chartered Financial Analysts Institute, the Prospectors and Developers Association, and the Canadian Institute of Mining and Metallurgy. He is also the past president of the Mineral Resource Analysts Group of Toronto and serves as a director to several traded mining and exploration companies, among which he is most noted for being the Lead Director of Guyana Goldfields Inc.

Peter Hooper, President and Director: Mr. Hooper has a substantial amount of experience working in the mining industries in South Africa, Canada, Australia, and Ghana. He has provided consulting engineering to projects in Canada, the United States, Cuba, Columbia, Venezuela, Mexico, Chile, South Africa, Zimbabwe, Australia, Kyrgyzstan, Kazakhstan, Uzbekistan, Russia, Saudi Arabia, and France. He also spent two years as a consultant exploring ways how to handle and store hot radiometric waste produced from Canada's Candu nuclear reactors. Mr. Hooper was also the General Superintendent, Mine Manager for the Beaver Lodge Uranium Mine (now Cameco Uranium) between 1978 and 1981.

Laurence Stefan, Director and Managing Director: Mr. Stefan is the founder of the Colibri Group of Companies in Peru as well as the Managing Director of Minera Colibri. He has extensive experience in conducting metallurgical and mineralogical evaluations from having worked on more than 200 mining and exploration projects throughout Central and South America, Europe, Africa, and Asia, which has resulted in having compiled over 1,000 in-house reports.

James Andersen, CFO and Director: Mr. Andersen has more than 15 years of experience in practicing public accounting and extensive experience with small cap mining companies. Currently, he is the President of Andersen & Company Professional Corporation (a boutique accounting firm located in downtown Toronto) and also acts as a part-time CFO for two other junior resource companies.

Lonnie Kirsh, Director: Mr. Kirsh gained considerable securities regulatory experience at both The Toronto Stock Exchange and the Ontario Securities Commission. From 1996-1997 Mr. Kirsh was a Senior Manager for Company Listings at The Toronto Stock Exchange, where he was responsible for overseeing the group that was charged with all new listing, suspension, and delisting activities on the Exchange. Currently, he is working as a partner at the Toronto law firm of Kutkevicius Kirsh, LLP and practices in the area of corporate finance and securities law. He also sits on the Board of Directors for several public and private corporations.

Risks

The company appearing in this report is at a junior stage and consequently any investment in the company's securities should be considered highly speculative. This analysis should be considered by sophisticated investors only, in conjunction with the advice of a qualified investment professional.

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