

# Niger Uranium Ltd. (AIM: URU)

Initiating Coverage

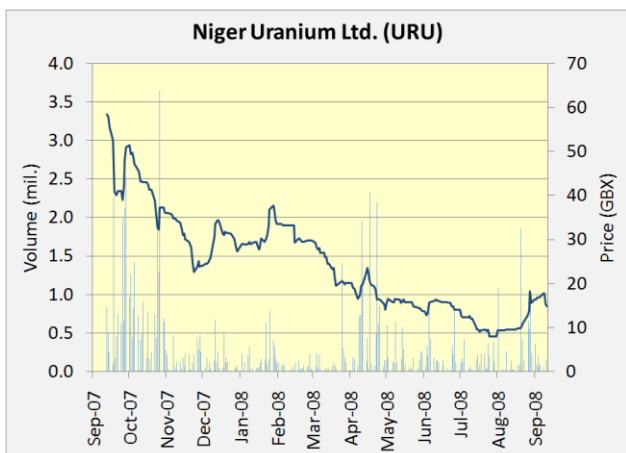
Rating: Buy  
 Target: 34.41p

Key Data	
Industry:	Mining
Price:	14.75p
52 Week Range:	7.25p-51.75p
Market Cap:	£15.44 mil.
Shares Outs.:	104.66 mil.
Book Val./Share:	\$0.31
Price/Book:	0.84x
Price/Min. Assets:	0.93x
Net Gearing:	0.0%
2008 EPS est.:	(\$0.080)
2009 EPS est.:	(\$0.078)

## Initiating Coverage on Niger Uranium Ltd.; Diversified Portfolio of Exploration Assets

### Investment Summary

Niger Uranium Ltd. (AIM: URU) was formed in 2007 as a uranium exploration and development company with assets primarily in Niger but also in Namibia and South America. As an emerging company, URU's management is focused on exploring and extracting uranium from its properties in Niger while also acquiring additional properties in other regions. We are initiating coverage on Niger Uranium Ltd. with a Buy rating and 12-month target price of 34.41p.



### Mining Exploration Assets

Niger Uranium Ltd. ("NUL") holds mining development licenses in four Niger cities — Dabala, Kamas, In Gall, and Irhazer. All of these licensed properties are located in the Tim Mersoï Basin, which is a recognized uranium province. NUL also holds additional licensed properties from acquired companies in Namibia as well as in Chubut and the Salta provinces in Argentina. Recently, NUL has announced its intention to buy a 74% stake in a uranium project in South Africa.

**Niger:** The acquired properties by NUL from NWT and UraMin cover a combined area of 1,673,644 acres and are all located in the Tim Mersoï Basin in Niger.

**Company Description:** Niger Uranium Ltd. ("NUL") was incorporated in May 2007 by UraMin Inc. (UraMin) and Northwestern Mineral Ventures Uranium Inc. (NWT) as a uranium exploration and development company. On July 17, 2007, an Asset Purchase Agreement was signed between NUL, NWT, and UraMin. Under the agreement, UraMin agreed to pay \$15 million and transfer its six mining development licenses in Niger to NUL in exchange for the issuance of shares in the company, while NWT agreed to transfer both its mining development licenses and mining assets in Niger to NUL in exchange for the issuance of shares in the company plus C\$4.8 million. In addition to these properties in Niger, NUL has also acquired stakes in companies operating in Namibia and South America.

**In Gall and Irhazer:** In July, 2007, NWT transferred its In Gall and Irhazer mining properties to NUL for which the permit authorization from the Niger Ministry of Mines was granted in January, 2008. These properties are located in an area known for having two production-stage Areva uranium mines, which accounted for 6.8 million lbs of uranium in 2005. According to the Competent Person Report (CPR) prepared by MSA Geoservices, Irhazer and In Gall have returned uranium values that range between 0.22% U<sub>3</sub>O<sub>8</sub> to 1.0% U<sub>3</sub>O<sub>8</sub> from five surface rock samples collected from outcrops. These results are in contrast to many of the producing mines and deposits in Niger, which typically have a grade that ranges from 0.1% to 0.42% U<sub>3</sub>O<sub>8</sub>. NUL started its 10,000 meter drilling program in January, 2008, out of which 4,100 meters were completed in April, 2008. The company is committed to an exploration expenditure of \$4.4 million for the In Gall and Irhazer exploration permits, with \$1.6 million utilized to date.

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NUL recently announced a maiden resource statement at the In Gall property of 14.06 million tonnes at an average grade of 141.5 ppm (.01415%) using a cut-off grade of 100 ppm, or a total of 4.39 million pounds of U<sub>3</sub>O<sub>8</sub> equivalent. This estimate was conducted by MSA Geoservices of Johannesburg and is based upon 2,665 meters of drilling in 58 boreholes. MSA believes that the estimate could be expanded through further drilling. Furthermore, if the cut-off grade is lowered to 75 ppm, MSA's inferred resource estimate increases to 7.02 million pounds of U<sub>3</sub>O<sub>8</sub> equivalent at an average grade of 114.3 ppm.

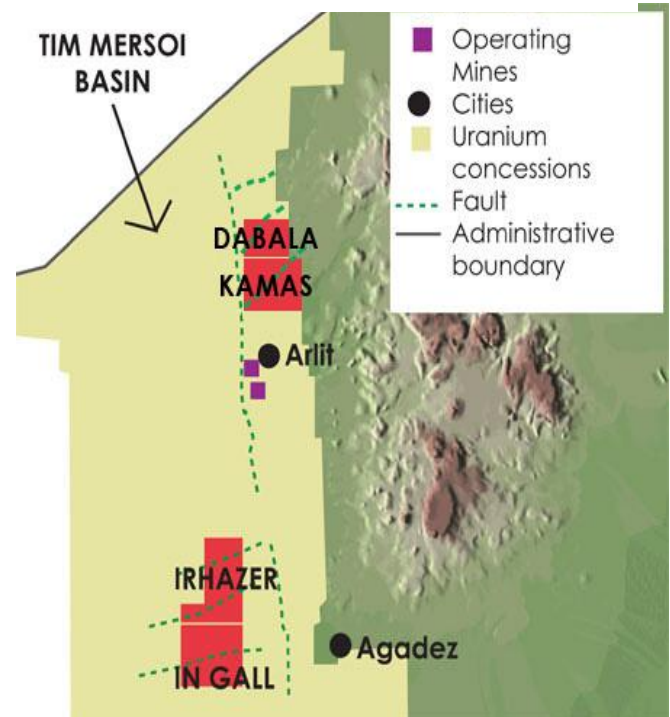
*Kamas and Dabala:* UraMin transferred its Kamas I – IV and Dabala III - IV mining development licenses in Niger to NUL in July, 2007, for which NUL received the permit authorization from the Niger Ministry of Mines in January, 2008. Although the company to date has not conducted any geological examination on the properties, it is committed to an exploration expenditure of \$12.0 million for the Dabala and Kamas exploration permits. The turbulent environment in northern Niger has prevented the company from conducting any preliminary surveys on its Kamala and Dabala properties. However, the situation is being monitored by NUL carefully and we believe drilling activity will start as soon as security risks decrease.

**Namibia:** On March 20, 2008, Niger Uranium acquired a 17.8% stake in Kalahari Minerals PLC (AIM: KAH) for £10 million, including a cash payment of £5.07 million and the issue of 17 million Niger Uranium common shares. The principal asset of Kalahari Mineral is its 36.2% stake in Extract Resources, which is an exploration stage uranium company with licenses in Namibia. Approximately 8% of the world's recoverable uranium resources are located in Namibia. Kalahari also holds interests in the Dordabis and Witvlei copper exploration properties which are located in the Namibian Kalahari copper belt. The Dordabis copper region contains five known copper deposits that span over 875 sq. km. With respect to Dordabis property, Kalahari Minerals has obtained preliminary compliance from the Joint Ore Reserves Committee (JORC). Kalahari Minerals has already started its drilling program on Witvlei property, although resource estimation is yet to be declared.

**South America:** On April 21, 2008, NUL diversified its operations into South America by acquiring a 20.89% strategic interest in UrAmerica, an Argentinean-based uranium exploration company. Niger Uranium paid \$2.5 million in cash for the company and issued 4.664 million new Niger Uranium shares, which represented 4.5% ownership of NUL. UrAmerica's license application covers a total area of 1,85,213 hectares in the Chubut and Salta provinces, which are known for their uranium mineralization potential and also are in close proximity to the Cerro Solo deposit (Chubut) and the Don Otto Mine (Salta), both of which are known for their uranium deposits. On April 21, 2008, UrAmerica commenced its initial Phase II of defining uranium drill targets in both of its Argentinean provinces, wherein the work in Chubut has been completed but continues in the Salta Province. Furthermore, UrAmerica is expanding to other areas such as Columbia and Paraguay where it has already applied for exploration licenses.

**South Africa (Proposed Acquisition):** On September 1, 2008, NUL has announced its intention to buy a 74% stake in Namakwa Uranium Limited, which holds licenses for the Henkries uranium deposit in South Africa. The

**Niger Exploration Properties**



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company expects that the Henkries deposit will be South Africa's first open pit uranium mine and in operation by late 2011 according to NUL's internal target. With an average depth to the base of the deposit of 10 meters, the Henkries deposit occurs very close to the surface, making it a good candidate for open pit mining. NUL hopes to achieve recoveries at Henkries of over 88%. The acquisition will cost the company an initial consideration of \$1.75 million in cash and 8.5 million Niger shares with a further contingent payment of \$5.5 million in cash and 1.5 million shares, which is not anticipated to arise before mid-2009. A non-code compliant resource estimate was done by Anglo Operations Limited in 1979 and indicated 4.18 million tonnes at a grade of 405 ppm (.0405%) with a cut-off grade of 100 ppm, or a total of 3.72 million pounds of U<sub>3</sub>O<sub>8</sub>. The grade of 405 ppm is better than NUL's existing In Gall resource estimate of 141.5 ppm.

### Industry Analysis

Three countries, namely Australia (containing 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, of which each produces more than 2,000 tonnes of uranium annually and account for 85% of total production.

Niger has been mining uranium since 1971. With an output of more than 3,153 tonnes of uranium in 2007, Niger was one of the world's largest uranium producers, contributing 7.6% of the total world production. The Niger government encourages international companies to establish mines in the country and has granted roughly 60 uranium exploration permits to about 20 Canadian, British, Indian and other foreign firms, mostly in the northern region of Agadez. In addition, the government plans to grant another 120 exploration permits, mainly for uranium but also for other minerals.

One of the most important uses of uranium is for 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, re-enrichment 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 over the long term as positive for the uranium industry.

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### Financial Review and Outlook

On September 12, 2007, NUL listed its 19.09 million new ordinary shares on the London Stock Exchange - AIM at £0.50 per share and raised £9.5 million. Since its incorporation in May 2007, NUL has reported no revenue and in its interim statement at September 2007, the company reported a net loss of \$3.048 million or \$0.037 per share. The reported net loss is attributed to administrative expenses of \$0.6 million and share-based payments of \$2.4 million. At the end of September 2007, NUL had cash of \$27.7 million and working capital of \$26.9 million.

Since September of 2007, NUL has invested in Kalahari and UrAmerica which reduced its cash position from \$27.7 million to an estimated \$5.8 million currently. The company's cash burn rate varies between \$300,000 and \$500,000 per month depending on operating costs. In order to complete the Henkries acquisition, the initial cash consideration of \$1.75 million will be funded from existing cash resources, while the contingent payment of \$5.5 million (which is expected to arise in mid-2009) will likely be funded through a private placement or the sale of existing properties.

The discovery of a new uranium resource at its In Gall target in such a short time is very encouraging and increases our confidence for the company's outlook and management's capability. In addition to advancing its In Gall resource, NUL will focus on stepping-out the Aboye, Niger, target in October, 2008, which returned 9 meters at 125 ppm eU<sub>3</sub>O<sub>8</sub> within the Tchirezrine II formation in early 2008. NUL is planning to drill four to five other high-priority unexplored targets by second quarter, 2009, which will be followed by a 1600 point radon and geochemical survey. Management is looking for deposits in this zone similar to the Arlit and Imouraren deposits, which range between 0.1% and 0.3% U<sub>3</sub>O<sub>8</sub>.

All figures in US\$	1H08	2H 08E	2008E	2009E
Revenue	\$-	\$-	\$-	\$-
Net Income	(3,048,000)	(4,950,460)	(7,998,460)	(8,789,130)
EPS	(\$0.037)	(\$0.050)	(\$0.080)	(0.078)

Fiscal year ends March 31. Interim results for 1H08 include results from incorporation on May 21, 2007, to September 30, 2007.  
 Source: company reports and LOM estimates

### Valuation, Rating, and Target:

We have valued Niger Uranium shares based on a sum-of-parts valuation. For the In Gall and Henkries uranium projects, which have inferred resources, we valued the assets based on an in situ acquirer consideration using the current U<sub>3</sub>O<sub>8</sub> price per pound of \$64.50. For the In Gall property, we applied an 85% extraction rate and 90% processing efficiency ratio to the 4.39 million pounds U<sub>3</sub>O<sub>8</sub> resource estimate. For the Henkries property, we applied an 88% extraction rate, 90% processing efficiency ratio, and 74% NUL ownership to the 3.72 million pounds U<sub>3</sub>O<sub>8</sub> resource estimate. We assumed that for both properties an acquirer would pay 10% of the uranium value after both extraction and processing efficiency discounts and that Niger Uranium would pay 35% tax on the sale. Using these estimates, we arrive at a value per URU share of 7.67 pence for In Gall and 4.63 pence for Henkries, for a total per share value of 12.30 pence. These valuations do not capture the upside potential if NUL is able to expand the preliminary resource estimates at either property.

For the investment in Kalahari Minerals (AIM: KAH) in Namibia, we have applied the most recent stock price for KAH of 36.25 pence to Niger Uranium's ownership of 26.68 million KAH shares, for a total value of 9.59 pence per URU share.

To account for Niger Uranium's minority ownership UrAmerica, we have applied the most recent private placement price (April, 2008) of \$1.093 per UrAmerica share to NUL's ownership of 4.421 million shares to arrive

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at a total value of 2.64 pence per URU share. This valuation does not consider the upside potential of the 4.421 million warrants owned by NUL at an exercise price of \$1.639.

In addition to the company's license at In Gall, NUL has 7 remaining licenses located in the Tim Merso Basin in Niger. Given the positive results at In Gall, we are optimistic about the value of the other 7 licenses. However, since these areas do not have resource estimates yet, we have valued the properties based on the average ratio of market capitalization to mineral assets (book value) of the company's peers. We used a mineral asset value of \$14.80 million for NUL's properties in Niger, which is the exploration expenditure that NUL has committed to making at these properties (excluding funds spent so far at In Gall) and does not account for the cost of acquiring these properties, which would add to our valuation. Using the peer average ratio of 1.23, we arrive at a value per URU share of 9.89p.

**Sum-of-Parts Valuation Summary**

Property	Value per Share (GBX)	Methodology
In Gall	7.67	In situ acquisition value
Henkries Deposit	4.63	In situ acquisition value
Kalahari Minerals	9.59	Market value
UrAmerica	2.64	Private placement value
<u>Other Niger Properties</u>	<u>9.89</u>	<u>Book value multiple</u>
<b>Total</b>	<b>34.41</b>	<b>Sum-of-parts valuation</b>

Source: LOM estimates

Therefore, based on the company's progress and our sum-of-parts valuation, we recommend a Buy rating on URU shares and a target price of 34.41p per share. This valuation does not fully capture the potential upside of the company's projects at this stage of exploration.

**Peer Group Comparison and Valuation Analysis**

Company	Symbol	Price	Shares Outstanding (Mil.)	Market Cap. (Mil.)	Mineral Assets (Mil.)	Mkt. Cap. / Mineral Assets
Bayswater Uranium Corp.	BAY	\$ 0.115	144.81	\$ 16.65	\$ 53.26	0.31x
North Atlantic Resources Ltd.	NAC	\$ 0.085	25.72	\$ 2.19	\$ 14.19	0.15x
Wealth Minerals Limited	WML	\$ 0.43	26.78	\$ 11.51	\$ 15.06	0.76x
Nortec Ventures Corp.	NVT	\$ 0.255	60.78	\$ 15.50	\$ 3.72	4.17x
Mansfield Minerals Inc.	MDR	\$ 0.50	44.33	\$ 22.17	\$ 30.58	0.72x
Average						1.23x
Niger Uranium Limited*	URU	14.75p	104.66	\$ 27.04	\$ 29.21	0.93x

\*Estimated mineral assets for Niger Uranium Ltd.

Data as of September 11, 2008.

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### Conclusion

We believe the company's well-located properties coupled with management's international field experience will result in a significant advancement of the projects. In addition, the acquisitions of both Kalahari and UrAmerica and the potential acquisition of the Henkries deposit provide the company with a balanced portfolio and geographic diversification into Namibia, South America, and South Africa.

Given the current level of interest in uranium assets along with positive fundamentals for uranium prices, we believe that the outlook for Niger Uranium going forward is solid. Our target price of 34.41p does not fully capture the upside potential if NUL is able to prove further resources in Niger or other regions. We believe this is an excellent opportunity for risk-oriented investors looking for exposure to early-stage mineral exploration companies.

### Management

**James Mellon (age 50), Non-executive Chairman:** Mr. Mellon was a non-executive director and chairman of Charlemagne Capital between August, 1997, and March, 2006. Prior to his affiliation with Charlemagne Capital, he worked with companies such as GT Management, Thornton Management (Asia) Ltd., and Tyndall Holdings PLC. He also co-founded the Regent Pacific Group in 1990 where he served various roles including CEO, executive director, non-executive director, and non-executive chairman, a position he still holds. Currently, he serves as a director to companies such as UraMin Inc., Fixed Odds Group Limited, Burnbrae Limited, Sleepwell Hotels Limited, Speymill Property Managers Limited, and various other investment companies. Mr. Mellon has a master's degree in politics, philosophy and economics from Oxford University.

**John Sanders (49), Chief Executive Officer:** Mr. Sanders has over twenty-four years of experience in exploration and mining, and served as a Vice-President for UraMin Inc. from November, 2005 till its acquisition in August, 2007, by Areva. Prior to Uramin, he served as the Exploration Manager for AngloGold Ashanti and Anglo American Corporation from 1993 to 2003. He holds a Masters diploma in economic geology from the University of Johannesburg and is a member of both the Geological Society of South Africa and the Australian Institute of Mining and Metallurgy.

**John (Ian) Stalker (55), Non-Executive Deputy Chairman:** Mr. Stalker was the CEO of Niger Uranium until August, 2008, when John Sanders became CEO. He was also the CEO of UraMin from July, 2005, until its acquisition by Areva in August, 2007. He has more than 30 years of mining experience from working in Europe, Africa, and Australia. He has worked with companies such as Gold Fields Ltd., Lycopodium, Ashanti Goldfields Company Ltd., Caledonia Mining Corporation, AGC Ltd. and Zambia Consolidated Copper Mines Ltd. Mr. Stalker is also a director of Templar Minerals Limited and holds a BSc. in chemical engineering.

**Gordon Cassidy (62), Director, Finance Director:** Mr. Cassidy is the chief financial officer, finance director, and director of Niger Uranium. He has spent 20 years in Africa while working in Zambia, Kenya, Nigeria, Zaire and Mozambique. In 1987, he transferred back to the United Kingdom to hold the position of UK finance director with Crown Cork and Seal Co. Inc. and also worked as the finance director for a private hospital operated by BMI. Previously, Mr. Cassidy was group financial controller for UraMin Inc.

**Wayne Gordon Beach (60), Non-executive Director:** Mr. Beach, LL.B., LLD (Hons), has practiced tax law for more than 20 years. Since 1994, Mr. Beach has been involved in financing international projects in the resource industry. He has also served as founder and director of several public corporations, including FNX Mining Inc. and Pangea Goldfields Inc., and is currently a director of Frontera Copper Corporation.

**John Paul Lynch (47), Non-executive Director:** Mr. Lynch is an experienced businessman with strong expertise in the areas of corporate management, administration, and corporate governance. He has been a director of

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both private and publicly traded organizations, and has worked with several public companies in the resource sector. Currently, he is the President of Universal Packaging Systems Inc., based out of Toronto and is also a former defensive back with the Canadian Football League's Ottawa Rough Riders.

### 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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