

**FAR EAST CAPITAL LIMITED**

Suite 24, Level 6, 259 Clarence Street  
SYDNEY NSW AUSTRALIA 2000  
Tel : +61-2-92470077 Fax : +61-2-92470044  
Email : [wgrigor@fareastcapital.com.au](mailto:wgrigor@fareastcapital.com.au)  
[www.fareastcapital.com.au](http://www.fareastcapital.com.au)  
AFSLicence No. 253003 A.C.N. 068 838 193



*The Mining Investment Experts*

**OZEQUITIES  
COMMENTARY  
On Presentation**

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*(with additional comments)*

*Analyst: Warwick Grigor*

## Uranium King Ltd (“UKL”)

### *“Re-Rating to Potential Producer is Imminent”*

UKL is a stock that we have been quite keen on since its IPO in September 2006, raising \$6.5m. Its spread of projects looked interesting when we received our first presentation with the shares having run up sharply after the listing – but we did nothing other than watch. The shares have run again, reaching the 80¢-\$1.20 range. Has the horse already bolted? We don't think so.

#### Local Knowledge Essential in the USA

Many Australian companies have fallen foul when venturing off to the USA for various reasons. Nevertheless, there is a growing band of Aussie juniors chasing uranium projects that are situated in historical uranium mining areas such as Arizona, New Mexico, Nevada and Wyoming. Reliability of past data and favourable geology have been the draw cards even where the size potential is viewed with modesty. UKL has enlisted the support of long-term uranium industry enthusiasts in its quest, with a level of geological intimacy that is impressive.

#### Focus on Early Production – Apex Lowboy

UKL believes that it has a viable uranium mine in the making at Apex-Lowboy in Nevada. The concept is simple; mine and treat the low grade halo around an historical mine that was the largest in Nevada, previously mining ore grading 2,500 ppm. The ore is shallow and soft and believed to be amenable to heap leaching (which incidentally can work much better with the right uranium ores than it does with gold).

The mineralisation is located on a contact zone between sediments and intrusives, with sandstones containing uraninite and coffinite. The uranium minerals have been deposited as open space fillings from uranium-bearing solutions in fractured metasediments near granitic/metasedimentary contact. A scoping study is being worked on at present with results not expected to be available for another month or more. However, there is no reason why we can't speculate as to the potential profitability based on the information we have on the resources identified.

UKL has already released JORC compliant resources of 680 tonnes of U<sub>3</sub>O<sub>8</sub> at a grade of 700 ppm (the same grade Langer Heinrich is shooting for). Drilling has been on 10 and 15m centres so statistical confidence should be high. The Company believes it will be able to increase this by 30% to about 900 t. There is also the possibility of greater resources if the theory on fault displacement is validated, but that will take some drilling effort.

The main resource extends to a vertical depth of about 40-50m. There is no pre-strip requirement and the waste to ore ratio would be in the order of 3:1. The ore zone is long and narrow with pit dimensions likely to be about 600m x 200m.

If we assume that 2-3 year mine life is targeted, then the annual production could be in the order of 300 tpa U<sub>3</sub>O<sub>8</sub>; modest but worthwhile.

#### Heap Leaching Characteristics

The Apex resource consists of U<sup>+6</sup> uranyl phosphate minerals, which are easily soluble and thus amenable to heap leaching. Tests in the 1970s by parties that included the reputable organization, Hazen Research, demonstrated that a dilute sulphuric acid (5% H<sub>2</sub>SO<sub>4</sub>) solution liberated 90% of the contained uranium in 30 minutes, at a temperature of 20°C, when ground to a minus 20 mesh.

Tests on larger samples crushed to minus 3/8 inch (+20 mesh), returned 95% recovery over five weeks from a head grade of 750 ppm. This is what can be expected on a commercial operation.

(As an aside, on a recent field trip to some Chinese uranium mines I observed that heap leaching of uranium in an altered granite returned 95% rates in 70 days for a vat sulphuric acid leach, and the same rate in only 45 days for a vat bio-leach).

#### Payback Could be as Low as Four months

Even if we assume a high operating cost of US\$30/lb (about twice what Paladin is aiming for on a similar grade), the cash operating margin on 660,000 lbs p.a. at the spot price of US\$85/lb could be US\$36m p.a. (A\$45m or 53¢ a share).

Given the low capital cost nature of heap leaching, and the ability to use contract mining, UKL might be able to get away with a low capex of US\$10m. At the estimated cash flow, the payback for the mine could be as short as four months (once the usual slower ramp-up period for heap leach operations is over).

#### Rio Puerco Project – High Grade, More Tonnes

The Rio Puerco project in New Mexico is a larger project with about 2,000 t of U<sub>3</sub>O<sub>8</sub> and a better grade of 1,200 ppm, with the potential to double. Back in the 1970s, Kerr-McGee sank a 270m shaft to develop the resource as a room-and-pillar underground mine, spending US\$17.5m in the process. A 10,000 ton bulk sample was mined and treated off-site, but uranium market economics did not warrant a move to full commercialisation at that point. At present, the Rio Puerto property includes the mine shaft and ancillary surface facilities. The head frame has been removed.

Interestingly, even though it may be amenable to in-situ leaching (ISL), no assessment of this technique was made by Kerr-McGee even though the ore is located beneath the water table in permeable sandstones, confined between impermeable mudstones – all essential pre-conditions for ISL mining.

UKL is considering the ISL alternative but it requires additional information on porosity, permeability, clay content and the hydrological characteristics of the aquifer containing the resource.

Typical primary ore at Rio Puerto consists of uranium-enriched humic matter that coats sand grains and impregnates the sandstone. Coffinite is the primary uranium mineral. A direct correlation exists between the uranium content and the organic-carbon content, with carbonaceous material being the primary control of uranium mineralisation.

#### Potentially Very Good Economics

Back in 1996, a study concluded that mining and milling costs would have been US\$40/ton but ISL mining could costs were estimated at \$10/ton. Based on a recovery rate of 90%, which would yield about one pound per ton, on today's uranium price it would give a profit margin of US\$45/lb for conventional underground mining and US\$75/lb for ISL mining. Even after adjusting for inflation we can see that there is a significant profit potential. Assume ISL costs have doubled. The resource of approximately 4 mill. pounds could provide a cash margin of US\$260m at current uranium prices. Hence there is excellent potential. (NB: there may be some confusion with figures due to short tons and tonnes, so use this as a ball park figure only.)

Nearby, the Lily-Sams project contains a large radiometric anomaly that could provide extensions to Rio Puerco. This may be drilled over the next few weeks, adding to the news flow.

#### The Bottom Line – What Rating Does a Producer Deserve?

We are continuing to learn about UKL, but each time we sit down with the Company we have been more impressed. With a market capitalisation in the order of \$70-\$75m, UKL has significantly more substance, and value, than many heavily promoted exploration companies. We will be upgrading it to a potential producer when we release our next uranium sector study.

A rule of thumb might suggest that the shares should be selling on a multiple that equates to the estimated mine life e.g. with a cash flow estimate of 53¢ a share, the share price should be about \$1.50 on Apex alone. However, this is too rational for this market. The market is likely to give UKL a significant premium if it can show that it will be a serious producer within 2-3 years.

#### How Far Do You Chase Uranium Stocks?

It seems that only the lucky insiders get invitations to subscribe to uranium IPOs, particularly if they have any substance. It is normal that these shares perform very well on the opening, but has also been apparent that given a short space of time while the sellers are digested, many of the uranium stocks move much higher. There is no objective ceiling that we can place on uranium stocks. Valuations that seem excessive just seem to support even higher share price movements as opposed to warning us that a share price is expensive. From an analytical viewpoint all we can do is watch and wait. No-one likes to be told a stock is very expensive, then sell it, only to see it double again.

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