

BGF Equities Company Research

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UraniumSA Limited USA

Company Presentation

New uranium discovery in Sth Australia has gone unnoticed

Share Price	\$0.075
12 Mth High/Low	2¢-16¢
Market Cap'n	\$6.32m
ASX Listed Shares	84.2 million ordinary *
Listed Options	30.36 mill. Jan '10, 25¢
Unlisted Options	7.78 mill. executive, 20-25¢
Cash Balance	\$2.3m Post 1 for 3 issue at 7¢
Debt	Nil
Largest Shareholders	Stellar Resources 16.2%
	Peninsula Exploration 7.5%
	Marathon Resources 6.9%
	Bluck Holdings Pty Ltd 4.4%

* issued capital, market cap, assumes full take-up of 1 for 3 issue



Investment Perspective: USA is a junior uranium stock that has made the transition from a grass roots explorer to one with a JORC-compliant inferred resource, in one of the best jurisdictions in the world, being South Australia. At the current share price it is clear that the market has not factored in the recent success. Given that a similar situation in South Australia, Curnamona Energy, is capitalised at \$27m, there is plenty of room for the USA price to move higher.

USA is embryonic at this point, carrying only a nominal market capitalisation. Trading volumes are likely to remain thin at these prices but the entitlement issue may provide

an entry point in the event that directors have a shortfall to place.

As this will be a difficult stock to trade, shareholders need to be patient and look for improving volumes as the story becomes more widely circulated and the uranium buffs see that this is a company with real production plans. An expanding information curve will add to trading volumes.

The outlook for uranium companies has turned positive over recent weeks, reversing a two year bear market. The uranium spot price has lifted from US\$40/lb to US\$51/lb. Speculators will be looking for promising stocks that offer leverage and early production on the improved outlook. USA is one such company.

Share Price Drivers

- Improved finance after the completion of the 1 for 3 issue at 7¢ (\$1.4m)
- Continued drilling will add to the resource base, lifting it from 2,700 t U₃O₈ to 3,500 t initially, and then to 5,000 t U₃O₈.
- Greater exposure from public submissions involved in the application process for in-situ leaching field trial will highlight the discovery
- Initial production of 100 tpa U₃O₈
- Results of field test will give economic and technical parameters
- Comparative analysis to situations like Curnamona will highlight the optionality value of USA shares at these prices
- ability to improve grades through selectivity



Points from Presentation

Russ Bluck, Managing Director

1. Initial JORC-Compliant Uranium Resource Announced 5th May 2009

☛ Mullaquana Project - Blackbush (100%)

☛ Size of Deposit	12 mill. tonnes at 200 ppm eU ₃ O ₈ 2,700 t eU ₃ O ₈ (5.95 mill. lbs)
☛ Category	Inferred
☛ Grade-Thickness	0.13m % eU ₃ O ₈
☛ Average depth	60 m below surface
☛ Density	1.8 t/m ³
☛ Location	20 km south west of Whyalla
☛ Dimensions	1.6 km strike, 1.3 km wide, average thickness 5.6m
☛ Drill spacing	400m x 400m
☛ Cut-off grade	100 ppm
☛ Style	Granular sands with carbonaceous coating that has attracted uranium
☛ Treatment Path	Believe it to be amenable to ISL, but field tests required

2. Discussion

☛ Nature of the Deposit

- it is useful to look at this deposit in a similar fashion to the way you would look at an oil play i.e. it has;
 - a source rock - the underlying granite
 - a transport mechanism - the aquifer flowing through unconsolidated Miocene sand units
 - a trap site - the carbonaceous material associated with the Eocene sand units
- uranium rich fluids were leached from underlying granite, probably through fault zones into a miocene sand unit aquifer. The ground water in the aquifer would have been acidic and therefore oxidizing, transporting the uranium until it made contact with reactive units which would have caused the uranium to drop out of solution
- from surface down, the following horizons have been identified (see Diagram 1);
 - recent cover
 - clay layer
 - limestone layer
 - sands (acidic with a Ph of 6.5) - (the aquifer)
 - sands and lignite - the deposition of uranium - at depths of approx. 50-60m
 - granite basement - original source of the uranium

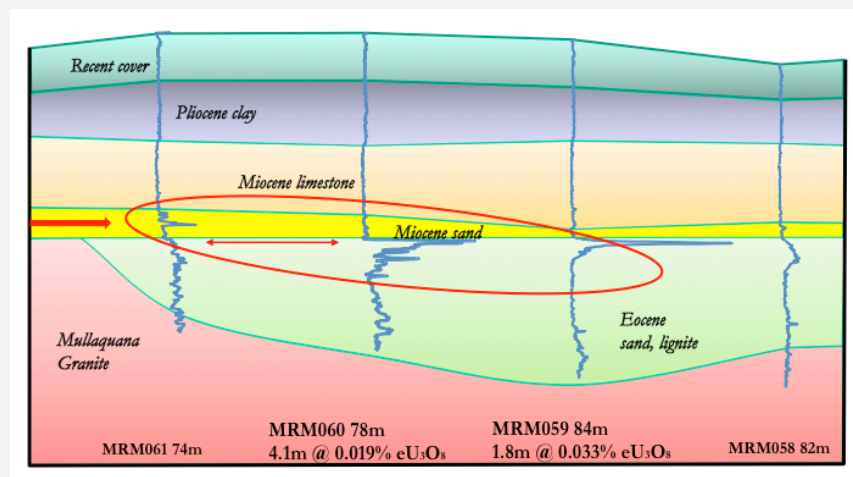


Diagram 1. Mullaquana Project - Section 6324100N - Geology and Mineralisation

- the thickness of the mineralised zones varies from 1-2m in the east to 6-12m zones in the west
- sampling of geology to date has been based on 2m composites of sands and lignites
- the grain size of the deposit is coarse at 0.5-4 mm. This offers good porosity of 20-30% (needed for solution flow in an in-situ leaching operation).
- the uranium has attached to the carbonaceous film on the sand granules, making for easy contact with acid solvents
- this is different to the channel deposits found elsewhere in South Australia e.g. Four Mile West (AGS) and Oban (CUY).
 - Blackbush was formed along an old shore line (it is very close the ocean today), whereas the others were ancient river systems
 - Blackbush was deposited horizontally (stratigraphically) over an extensive area rather than in the classic rolling-front deposition model that migrates down a river system
 - classic roll-front mineralisation often involves narrow ribbons of mineralisation that can be difficult to correlate from hole to hole, and therefore need closer drill spacing than a laterally continuous stratigraphic horizon like what we see at Blackbush.
- water for drilling purposes is being recovered from the eocene sequence, having a Ph of 8, and being 3x saltier than sea water

🔊 Issues in Assessing Channel Deposits in Exploration Stages and in Production by ISL

- drilling is difficult due to the unconsolidated nature of the geology that can often lead to the hole caving in before the uraniferous horizons can be properly assessed and assayed.
 - some of the projects in Sth Aust. have drilling contracts that specify holes must be open for at least 3-4 hours.
 - at Blackbush, it is normal for holes to be open for at least 3-4 days. This means that more accurate and reliable reading can be taken
- control of water flows will be important - need to be able to extract water out of the ground faster than the aquifer is recharging
- assaying has all been by gamma probing. A peer review has confirmed that standards have been appropriate and that radon gas has not be elevating counts. Potassium, thorium and heavy metals are not believed to be distorting the assaying.
- need 500 eppm over 1m to warrant development
- the next step will be to reducing drilling to 200m x 200m centres, and select a couple of representative areas for closer drilling and field leach trials. This process could take 12-18 months

3. Tonnage Potential from Here

- 🔊 USA expects that it can achieve better grades through greater understanding of the geology
- 🔊 it believes it can lift the tonnage from 2,700 t U_3O_8 to 3,500 t fairly quickly i.e. 7.7 mill. lbs. (It is reasonable to assume 1,000-1,500 t per prospect, and it has three untested prospects ahead of it).
- 🔊 a figure of 5,000 t U_3O_8 (11 mill. lbs) is achievable
- 🔊 it is possible to have a profitable ISL operation with grades of 200 ppm, depending up the depths and capital costs

4. The Path to Commercialisation

- 🔊 Proof of Concept with the definition of operating parameters
 - given the uniqueness of uranium deposits with respect to metallurgy and technical parameters, particularly with ISL projects, it is necessary to conduct extensive bench tests followed by field test
 - USA intends to intensely drill test areas on a 100m x 100m pattern. It will then conduct porosity and permeability tests ahead of the development of drilling five spot array patterns, with wells drilled 20-25m apart. Two or three of these arrays should be sufficient for the testing phase, to achieve 100 tpa U_3O_8
 - the uranium will be dissolved by either acid or alkaline solutions and recovered onto a resin attraction system to produce the yellowcake.
 - the capital cost of a modularised 100 tpa unit could be as high as \$20-25m if the "Rolls Royce" standard was adopted, with much of the cost being in the pressure vessels. USA believes it can achieve a purpose built plant somewhat cheaper, at \$10-15m, but this is dependent upon continuing studies

- the development (drilling) of the fields is the other major capital item. USA will have advantages compared to the Four Mile development as its mineralised horizon is only one third of the depth, at 50-55m. Proximity to Whyalla (20 km) will help keep development costs down, and grid power could be connected for less than \$200,000.
- Operating costs for ISL operations at similar grades elsewhere in the world are generally in the range of US\$25-30/lb, so this would be a reasonable estimate at this juncture.
- Operating margins on 100 tpa U₃O₈ (220,000 lbs), at the spot price of US\$51/lb, could be in the order of \$5-6m p.a.
- Once the commerciality of the project has been determined, USA could scale operations up to the 200-300 tpa rate.
- The time frame to complete the first 100 tpa test is likely to be 1-2 years

5. Finances

- 1 for 3 entitlement issue at 7¢ to raise \$1.4m
- existing cash balance is about \$1m
- spending about \$80,000 per month on drilling

Disclosure The author does not own shares in USA

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