



optiva securities

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URANIUM RESOURCES plc*

16 December 2010

BUY

Stock Data

Current Price: 2.63p
Market Cap: £12.6m
Shares Outstanding: 481.7m

Company Profile

Sector: Resources Exploration
Ticker: URA.L
Exchange: AIM London
Website: uraniumresources.co.uk

Activities

Uranium exploration in Tanzania.

Performance Data

52 Week Range: 1.38p-3.25p
All Time Range: 0.75p-8.25p

Key Metrics

Net Cash estimate
(Dec 2010): £700,000

Directors

Alex Gostevskikh	MD
Ross Warner	Dir
James Pratt	Dir
Hugh Warner	Dir
Andrew Lewis	Non Exec
Viacheslav Medvedev	Non Exec

Major Shareholders

Estes Limited	33.7%
Geiger Counter	8.6%
Hugh Warner (Dir)	5.6%
Bruce Rowan	5.1%
Barclayshare Nom	4.3%
Sunvest Corp Ltd	4.2%

*Optiva Securities acts as joint broker to Uranium Resources plc.

URA, a Mantra Resources in the making?

Following the recent exploration success of Uranium Resources' (URA) neighbour Mantra Resources and the A\$1.16 billion cash offer made by ARMZ Uranium on 15 December 2010, Tanzania is now emerging as a significant uranium province that is attracting the interest of uranium producers. Although at an earlier stage of exploration than Mantra, URA is well placed to develop a pipeline of prospects within its strategically positioned licence package covering 12,700 sq km under the guidance of an experienced resources management team and supportive institutional investors.

KEY POINTS

- ❖ URA is exploring in a target rich uranium environment in East Africa. Only 50km from the Group's licence lies the mammoth Nyota discovery deposit held by Mantra Resources, which has a Measured and Indicated resource of 67.7m tonnes at a uranium grade of 439 parts per million (ppm), giving 65.5m lbs of contained uranium.
- ❖ ASX listed Mantra is in the process of being acquired by Russian resources company ARMZ Uranium for A\$1.16 billion (£735m), which values each pound of its uranium at US\$10.26.
- ❖ Mantra's takeover value is 58 times the market cap of URA and underlines the value investors are attaching to advanced stage uranium plays in the region and the interest being taken by uranium majors in Tanzania.
- ❖ URA has strong institutional investor backing including Estes Limited which invested a significant sum of £3.3m during 2010 to gain a 33.7% stake.
- ❖ Tanzania provides an attractive African destination for mining companies with a stable government, attractive fiscal regime and established mining culture.
- ❖ The Group has reported that initial results from first phase drilling in the 2010 campaign are encouraging and indicate the potential of the strata to host large-scale uranium mineralisation. A greater understanding of the geology at Mtonya could be gained once all the assay results and associated data have been processed in Q1 2011.
- ❖ Uranium prices have risen by around 50% over the last six months to US\$61.75/lb in response to Chinas' plans to substantially increase its nuclear power station capacity by 2020 to meet future economic growth and improve nuclear use from the current 1.9% of electricity generated, compared to developed countries such as the USA at 20.2%.

RECOMMENDATION

We initiate full coverage of Uranium Resources with a BUY recommendation. When the complete results from the 2010 programme are known in Q1 2011 we should be able to understand more about the geological setting of URA's Mtonya permit. It may also give investors an early indication about whether its licences have the potential to host not just one but multiple Nyota style deposits. In addition Uranium Resources provides an attractive play for investors to gain exposure to a uranium stock that has yet to move higher with rising uranium prices over the last six months or the interest being shown in the region by uranium majors such as ARMZ Uranium.

BACKGROUND

Uranium Resources has built up a substantial land package of uranium prospective licences in Tanzania, East Africa which totals 12,700 sq km under the direction of a highly experienced resources management team. The granted licences include Mtonya and Ruhuhu, which are 100% owned, whilst most of the licences held under application are in JV's and 85% to 90% controlled by the Group.

URU's extensive land package has been achieved since gaining a quotation on AIM in February 2005 following a £1.05m gross Placing at 1p per share. Subsequent fundings have been well supported by both management and long term institutional investors such as Estes Limited, which is part of the Cayman based registered investment fund Tangent Group and Geiger Counter, a fund managed by New City Investment Managers in London. To date Estes has invested the significant sum of £3.3m in the Company through three separate Placings in 2010 (at 1.92p, 2.00p and 2.55p approx. per share) out of a total £3.7m gross raised from investors. Of this amount £1.44m was utilised to buy out a 60% interest held by former JV partner Indigo Resources to give the Group 100% operational control on its main projects. The remaining funds are being utilised for exploration and to finance corporate overheads.

Over 14,840 metres of drilling has been undertaken on Uranium Resources' properties, of which full results from the most recent 4,170 metres are expected to be announced in Q1 2011. Other newsflow could come from field work planned for January/February during the drier part of the wet season and surface geology work planned at Likuyu and Ruhuhu. The corporate objective ahead is to advance the Group's exploration projects in Tanzania with the goal of defining a world class size resource similar to that achieved by Mantra on its Nyota deposit. Beyond Tanzania the directors intend to add new uranium projects to the portfolio elsewhere in Africa that present the best in terms of cost/value ratio potential. The Group may look for projects that complement the Tanzanian weather window, as exploration in the country is not possible in the wet season running from November to May.

DIRECTORS

Alex Gostevskikh (Managing Director) – Alex is a geologist by training and boasts over 20 years of experience in the mining and exploration arena. He has been involved with a number of TSX and NYSE listed companies in an exploration/geologist capacity such as Centerra Gold Inc, Kinross Gold/Amax Gold and Gulf International Minerals.

Ross Warner (Director) – Ross has a broad experience as a director of AIM and ASX listed resource companies. He originally practiced as a lawyer.

James Pratt (Director) – A geologist by profession, James has worked in the mining and exploration industry for over 20 years. He is particularly experienced at operating in Tanzania and has been instrumental in growing the Group's licence portfolio in the country. He was the Chief Geologist for Golden Pride's 2m ounce gold mine in the Lake Victoria area of Tanzania from 1998 to 2001.

Hugh Warner (Director) – Is also a director of Anglo Pacific Ventures. He has vast experience as a company director and has been a Board member for over 25 companies in the resources, biotech and service industry space.

Andrew Lewis (Non-Executive) – Has managed mining operations in many countries. He currently holds the post of General Director at a Dragon Capital subsidiary called Nui Phao Mining Joint Venture Co, Ltd in Vietnam, which has a significant open pit tungsten project. Previous positions held include that of President for Centerra Gold Inc's subsidiary in the Kyrgyz Republic.

Viacheslav Medvedev (Non-Executive) – Viacheslav represents the interests of the Group's cornerstone investor Estes Limited on the Board. Viacheslav is a geologist and experienced at working in Kyrgyzstan and Russia. He is also well versed in corporate matters after working at many Russian focused organisations in the areas of finance, accounting and business development.

TANZANIA – An emerging uranium province.

Tanzania is now swiftly emerging as an important uranium province in East Africa. A systematic nationwide exploration programme for uranium was conducted by the government between 1976 and 1979 which yielded the discovery of several uranium occurrences. However the drop in uranium prices in the early 1980s led to the ceasing of exploration activities.

Mantra Resources has led the way over the last three years with the advancement of its Nyota discovery, which is tantalisingly only 50 km away from Uranium Resources nearest licence property. Demonstrating the interest being shown in the region for advanced exploration plays by uranium majors, Mantra received a cash offer from ARMZ Uranium Holdings on 15 December 2010 for A\$8.00 per share, valuing the company at A\$1.16 billion. ARMZ Uranium is the fifth largest uranium producer in the world with operating mines in Russia and also the United States and Kazakhstan, through its ownership of shares in Uranium One.

Mantra has proved up a Measured and Indicated resource of 67.7m tonnes at a grade of 439 parts per million (ppm), containing 65.5m lbs of uranium oxide at a 200 ppm cut-off. In addition there is an Inferred resource (see below) that could be upgraded to boost the Measured and Indicated resource.

Nyota (Mkuju River Project) Resource Level <i>Cut Off grade 200 ppm</i>	Tonnage (million tonnes)	Grade (uranium oxide)	Contained (million uranium lbs)
Measured	40.9	442	39.9
Indicated	26.8	433	25.6
Inferred	41.2	395	35.9

The pre-feasibility study demonstrates that the project is very robust, with average annual production projected at 3.7m lbs per annum over an initial life of mine period of 12 years. Cash operating costs are anticipated at US\$25.05/lb, with total capital costs of US\$298m (process plant US\$140m & infrastructure US\$158m). The study points towards the potential for the generation of strong pre-tax cash margins at US\$115m per annum using a uranium price of US\$60/lb.

Mantra has laid the groundwork for other uranium development companies such as Uranium Resources to advance in Tanzania. Their experience has shown there is strong government support to develop a uranium industry. Other uranium exploration companies in the county include ASX listed **Uranex Resources** which holds ground over 16,000 sq km, along with tenements in Australia. On its Manyoni property, a JORC Inferred resource of 14m tonnes averaging 218 ppm uranium oxide, containing 6.7m lbs has been defined at a 150 ppm cut off. Uranex's market cap is A\$55.7m (£35m).

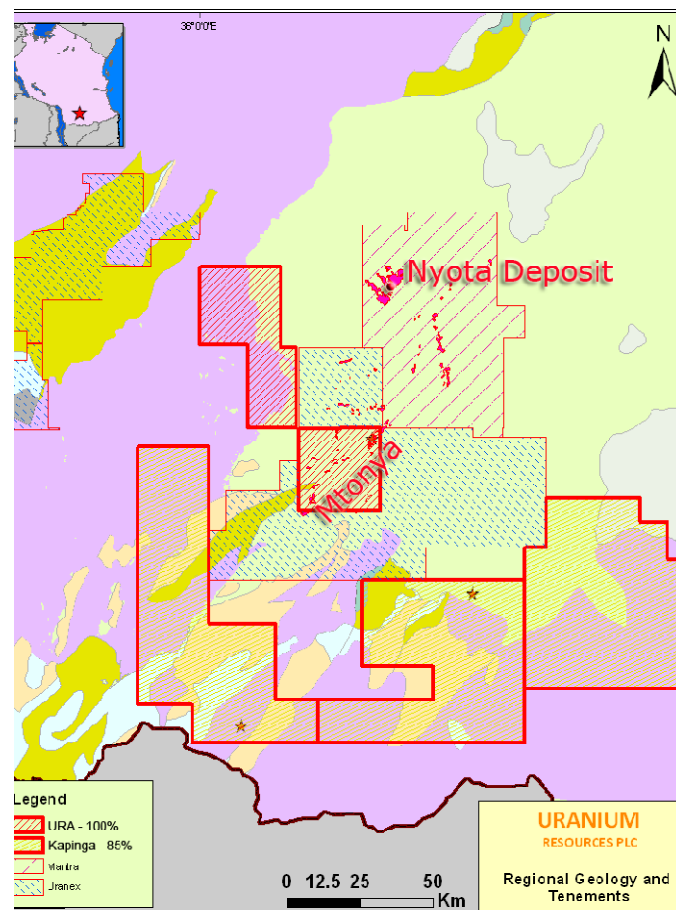
Tanzania already has an established mining industry in other resource areas, with a number of mining majors operating such as Barrick Gold. The country provides an attractive African destination for mining companies with a stable government, established mining culture and attractive fiscal regime.

KEY PROJECTS

Mtonya – This permit covers 1,200 sq km and is located 100km east of Songea in south Tanzania. The Group’s geologists are particularly excited about the potential of Mtonya as the uraniferous mineralisation is hosted within Karoo sandstone, the same sandstone as Mantra Resources’ Nyota deposit.

A number of significant uranium finds were reported following the 2008 drilling programme. The majority of drilling focused on the Mtonya corridor, with 9,288 holes drilled over 152 holes out of a 10,670 metre campaign. Several prospects were evaluated, with 3 holes returning intersections of more than 1,000 ppm uranium oxide.

Two years later in November 2010 URA completed a six month 4,170 metre drill programme split into two phases (3 holes for 1,512 metres & 8 holes for 2,658 metres). This was a broader spaced programme than the 2008 campaign with the objective of determining whether the geology is favourable for hosting Nyota style deposits. Initial results from the first phase have been reported by the Company to be encouraging and indicate the potential of the strata to host large-scale uranium mineralisation. The full assay results and associated data will be available in Q1 2011 and should help the management learn more about the geological setting and its potential for hosting uranium mineralisation. We may also gain an early indication about whether the geology will be right to support an in-situ leaching operation. Such a processing method would mean a lower CAPEX requirement, lower operating costs and be more environmentally acceptable than alternative approaches.



Ruvuma – The licence covers 9,589 sq km and consists of two prospects Foxy and Eland. A total of 19 holes over 1,382m were drilled on the project during 2008-2009 to test a surface anomaly which returned narrow and low-grade intercepts at shallow depths. In addition to uranium, the assays returned tantalum and niobium values. Further data analysis is required before new drill targets can be located.

Ruhuhu – This is one of the earlier stage uranium interests within the Group and located around 70km northwest of Songea. Three prospects Pedro, Carlos and Bindi have been identified to date by previous explorers as airborne radiometric anomalies or field reconnaissance targets. Uranium Resources plan is to identify new drill targets on the project.

URANIUM BACKGROUND

Uranium is the heaviest of all the naturally-occurring elements and 18.7 times as dense as water. The metal occurs in most rocks in concentrations of typically 2 to 4 parts per million and is as common as molybdenum, tin and tungsten, although it rarely occurs in high enough concentrations to be economically recoverable.

Global demand for uranium is being driven by increasing nuclear power plant construction to provide carbon free emission power. Other uses include nuclear powered ships (mostly submarines) and military weapons. Currently there are 441 commercial nuclear power stations in the world operating in 30 countries, with 383 new reactors under construction or planned for completion within the next ten years. Around 14% of global electricity generation comes from nuclear reactors. At a country level, nuclear generation is as high as 75.2% in France, 20.2% USA and 17.9% UK.

In high growth emerging market countries such as China and India, nuclear power use is extremely low at only 1.9% and 2.2% respectively of total electricity generated. China currently has 13 nuclear reactors with a generation capacity of 10.2 gigawatts (GW). To reduce the nations reliance on fossil fuels (80% comes from coal!) and to support continued economic growth, the Chinese government plans to increase nuclear capacity to at least 70-80 GW in 2020 and to 200 GW by 2030. China will therefore need to accumulate and source much more uranium than it currently does through spot market purchases and long term supply contracts to provide initial feed and ongoing fuel to meet new reactor capacity expansion plans. Uranium prices have risen by around 50% since June 2010 from US\$41/lb to the current US\$61.75/lb in response to Chinese nuclear expansion plans and the prospect that targets for 2020 and beyond will be raised.

(Data source: World Nuclear Association - 1 December 2010).

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