

Hallgarten & Company

Initiating Coverage

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Australian American Mining
(AIW.ax, ADR:MNOMY, M2H.f)
Strategy: Long

Financial Data		2009	2010e	2011e	2012e
Current Price (AUD)	\$0.04			n/a	n/a
ADR in (USD)	\$0.40			n/a	n/a
12-Month Target Price (USD)	\$0.75			n/a	n/a
12 mth High/Low (USD equiv.)	\$0.12-\$0.03			n/a	n/a
Upside to Target	87.5%			n/a	n/a
Market Cap (USD)	\$6.28			n/a	n/a
ADRs Outstanding (million)	15.7			n/a	n/a
Consensus EPS			n/a	n/a	n/a
Hallgarten EPS (USD)			-\$0.02	-\$0.02	-\$0.03
Actual EPS		(\$0.17)			
P/E		n/a	n/a	n/a	-1.6
Dividend		\$0.00	\$0.00	\$0.00	\$0.00
Dividend Yield		0.0%	0.0%	0.0%	0.0%

Australian American Mining

Joining the select band of uranium producers

- + The company is the result of the merger of Monaro Mining and Uranium King, two Australian listed uranium explorers in 2008. The goal was to create a new force in uranium with a global array of prospects.
- + It has just leased territory in Texas's ISL uranium belt with a view to moving towards production ASAP utilizing idle processing capacity in the region
- + A move to production also should begin in FY13 at the Apex/Lowboy property in Nevada
- + Aus Am has a Level I ADR listing and is working towards a Level II listing on the OTCQX later in 2010, which should expose the name to a whole new universe of investors in the US
- + The company has around US\$1mn in cash on hand and a burn rate of around \$100K per month at the current pace of development.
- ✗ The price for spot uranium has not been able to consistently lift itself over the bottom over the last two years
- ✗ Competitors in Texas have run into local opposition on environmental grounds
- ✗ The financing environment for non-producing uranium companies remains tight
- + The key takeaway is that almost all the properties are former producing sites to one degree or another, potentially saving proving up costs and shortening the time frame to production ramp-up.

Background

Australian American Mining NL is the new name for Monaro Mining, a Sydney-based junior uranium company that has been listed on the Australian Stock Exchange (ASX) since September 2005. In late July of 2008, it finalized its merger with Uranium King, a fellow uranium junior with a focus on past-producing uranium properties in the United States.

Aus Am was more geographically diversified than Uranium King, for instance, being the first Australian-listed company to acquire uranium exploration licenses in the Kyrgyz Republic. The company was also trailblazing into seemingly exotic locations like Bulgaria and Estonia. However, none of these were as novel as they seemed for all involved reviving prospects (and some previously producing mines) originally dating from the time when these nations were hidden behind the Iron Curtain. Interesting maybe but too much to handle in the straightened circumstances on the uranium market and all have been jettisoned over the last 18 months.

Likewise, Aus Am had agreements whereby it could earn up to 75% of a number of exploration licences in the Northern Territory and Queensland, but these too have been jettisoned as not fitting the new focus of the company.

Uranium King brought to the table projects in Nevada and New Mexico that were formerly producing and present the best perspectives for reactivation in the short-term. The strategy now is to add more

properties in the US, particularly Texas, in the pursuit of bringing an In Situ Leaching (ISL) operation into production in the relative near term. Thus the focus is now almost exclusively in the US uranium mining space.

The Key Takeaway

The prime distinguishing feature of Aus Am that separates it from the “pack” of uranium miners that have formed in recent years is the company’s focus on old workings. While in the heyday of \$130 per lb uranium it was more sexy for the companies in the uranium universe to be making surprise greenfield discoveries, the more steady approach followed by both the Monaro and Uranium King constituents of the current structure now gives them an advantage over those miners that are little more than pegged blocks with a fistful of assays. While former mines give no guarantee of higher grades or larger reserves they give a distinct advantage of shorter lead times and usually better extant data sets. Anything that minimizes financial demands and speeds the road to final output of product gives a distinct advantage.

The UKL Merger

The current company is the offspring of the merger between Monaro Mining and Uranium King that was announced in October 2007. Uranium King Limited was originally listed on the ASX in August 2006. Previously, in July 2006, Uranium King had exercised an option to acquire a 100% interest in the uranium assets of Mineral Energy and Technology Corporation. This was a US-based private company that owned the Rio Puerco and Church Rock projects in New Mexico and the Apex and Lowboy projects in Nevada.

The JORC inferred resources of a combined 6.1mn lbs at Rio Puerco and Apex/Lowboy are based upon exploration completed during the 1970’s and 1980’s. Uranium King has been actively exploring sandstone and unconformity type uranium targets utilizing its access to extensive historical data.

The merger closed in late July of 2008 following court approval of the scheme of arrangement.

The stated rationale for the deal was that:

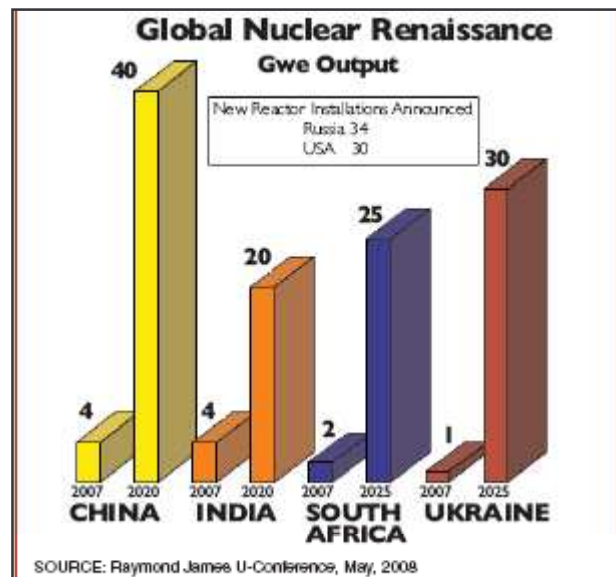
- + it brought increased financial capacity to identify and target project and corporate acquisition opportunities
- + it enhanced management and technical capabilities
- + it expanded the shareholder base with increased market liquidity

Nuclear Renaissance Delayed

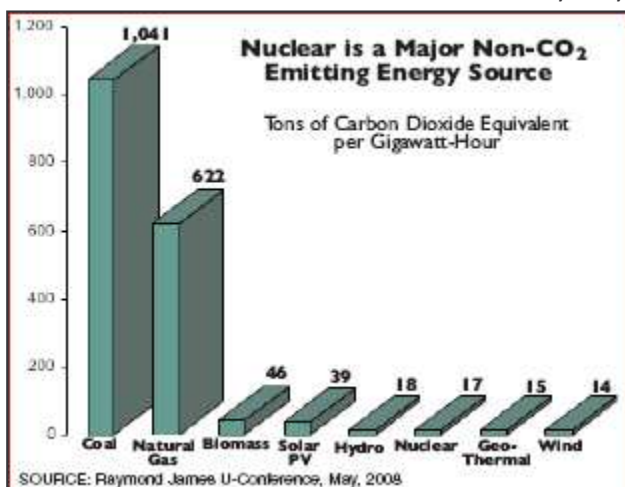
This section could be titled “Much ado about nothing” but that would only be true in the short term for we do believe that there is a nuclear imperative brewing that will make the current “we need it but aren’t going to deal with the hassle” attitude look like a *Phony War*. The much bandied about statistic is that France generates 80% of its electricity from nuclear. The response to this factoid was once *blasé* but now it invokes jealousy on most fronts. Politicians have found it easier to mention the “n” word and not get howled down by their constituents. Indeed, nuclear energy is now seen as being green.

Most prominent amongst the Western nations in revisiting the theme has been Britain where nuclear is back on the agenda, but with the complication of siting being ever present. The US has seen some *sotto voce* support for a reactivation of plant building after a long hiatus originating in the Three Mile Island accident and the financial travails of Long Island Power & Light. Even Argentina is in the throes of finishing off its third nuclear power plant. Europe is more straightforward as the options there are more severely limited. However, we note that moderate economic growth and vigorous energy saving initiatives combined with flat to declining population trends makes the issue of adding extra capacity not as pressing.

The real push has been in the developing world where local lobbies are not as powerful in impressing their NIMBY tendencies. The chart above shows the trend in four major emerging countries. We note that the new installations in Russia and the US are mainly replacements. The imperative for emerging economies is growth driven, hence China being the chief expansion in demand at the moment as it grapples with soaring electricity usage and the slow-motion collapse of its inefficient and dangerous coal-mining industry. The problem is further compounded by its carbon footprint, just about to pass that of the US, with the attendant danger of international outcry as China literally and figuratively “poisons the well”. Nuclear is the best response to the carbon issue both in China and at the global level.



The chart below shows the current output of carbon dioxide from various electricity sources. Nuclear clearly beats the current two major current sources of electricity generation (though we must admit to being at a loss in understanding how wind and hydro generation produce CO₂!). The key element here is that the other “low-carbon” sources are in many ways limited. Hydro is totally tapped out in Western countries and even in developing countries is enormously controversial (as evidenced by the Three Gorges issue); meanwhile wind and solar generation are limited in the sites that can be exploited and in their potential to be major sources of electricity production. Geothermal is great if you are Iceland or New Zealand!

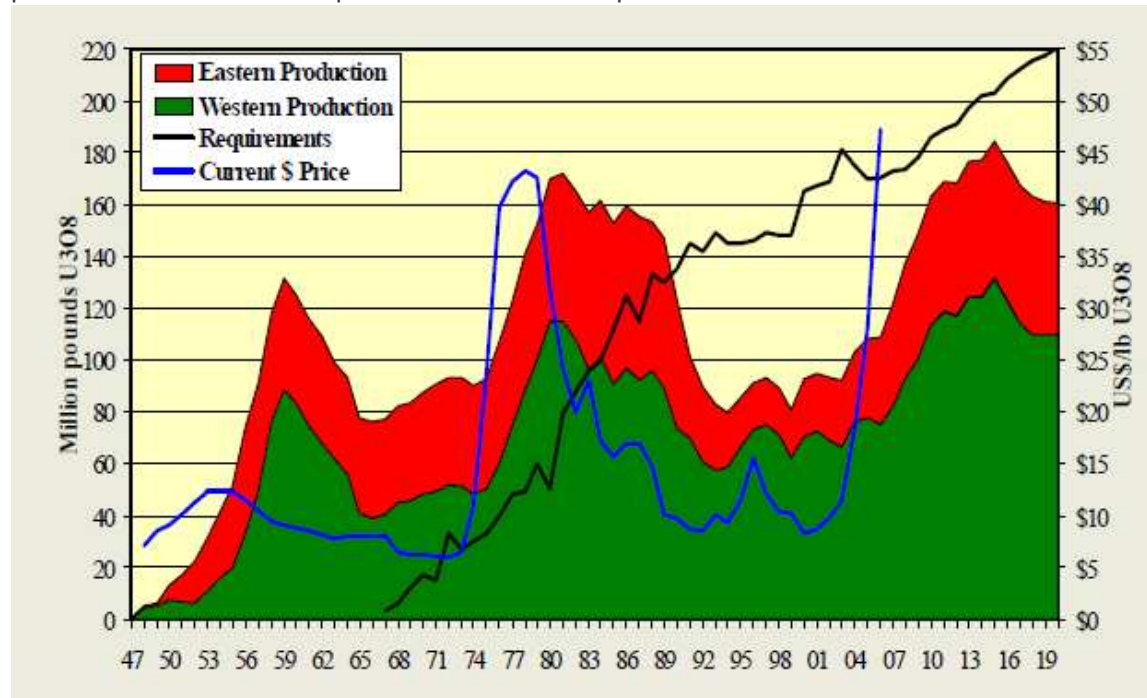


Geothermal is great if you are Iceland or New Zealand!

The Dynamics of Uranium

It might be germane at this juncture to dwell upon the “metal” before we look at the extent of Aus Am’s holdings of this commodity. This

“metal” bears closest similarity to the “by appointment” iron ore market than to the other publicly traded and liquid metals. The buyers are principally end-users (until recently) and they can easily short-circuit and go direct to the producers. Moreover the market is an extremely sensitive one in light of the other less pacific uses that the product, if enhanced, can be put to. So while it may be opaque as to who is really buying what at which price level, governments are constantly monitoring who has the product and what they doing with it. The product is not exactly a rare one. The fact that Wealth Minerals (WML.v), a relative junior, could suddenly pop up with nine prospects in a few short months in Argentina shows that uranium is out there for the finding and moreover it is not a product with a plethora of uses or consumption in the enormous quantities that other metals exhibit.



Source:URRE

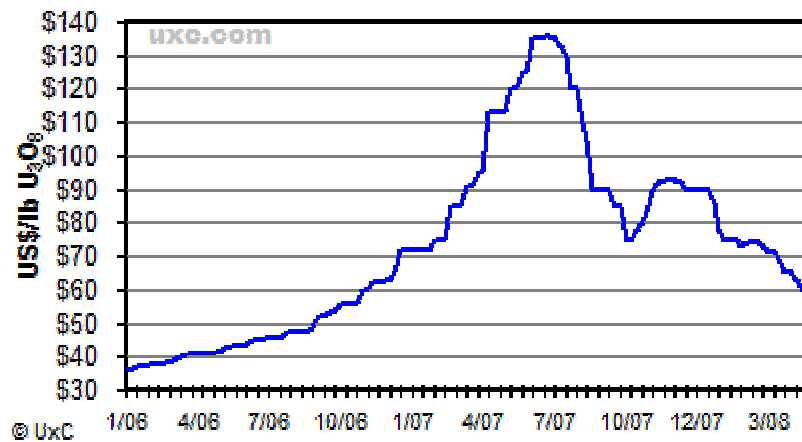
The underlying production story is what fed the bullish trend. Current US consumption is 50 million pounds of U₃O₈ per annum, however US production is a minuscule 3-4 million pounds from four mills. The substantial shortfall is made up from old Cold War stockpiles (ironically probably including some of the ore from Aus Am’s mines in their heyday). The stockpile of decommissioned Russian warheads is also a key source (which is expiring soon). In the chart above the gap between consumption and production since 1989 has been filled by raiding stockpiles.

The deficit is not only in the US. In 2006, the global consumption of U₃O₈ was 160 million and production was a mere 100 million pounds. Clearly such substantial shortfalls cannot go on indefinitely. It is hard to think of another “metal” that has such a “good” (meaning massively unsatisfied) supply/demand prognosis. While Aus Am’s mine’s are on a relatively short time frame to production, massive mines to plug that gap would take years to develop and only seem to be happening in Namibia and Canada. An upsurge in production is just not on the horizon. This is what propelled the price of uranium up, but probably four or five years before the real crisis was going to impact.

The revival of interest in uranium in 2007, which was largely spurred by the better pricing, created a new generation of stocks in the sub-sector the vast bulk of which are now sitting in the recycling bins of Toronto investment banks awaiting revival under the next flavour of the month. Most were mere cannon fodder that ended up being blown away by the exigencies of Darwinian capitalism. It should come as no surprise that not a few of the lithium and Rare Earth plays are resuscitated uranium juniors. A mere handful of survivors in the uranium space (e.g. Aus Am) will prove to be additions of new resources and genuine producers broadening the number of sources of global supply away from the few mega-producing mines that dominated the scene during the low price phase.

Uranium Price Trends

The price of uranium doodled about between a high of \$17 in 1987 down to \$7 in November 2000 before breaching the 1987 previous high in March 2004. The metal started a gradual glide upwards which might have genuinely been reflation-powered but then the riffraff jumped on board in late 2005, buckled their seatbelts and took everyone for a ride.



The ramp out of relative obscurity was a debacle that could have easily been foreseen. One look at the dubious quality of those touting its virtues made clear that it was not a quality game with quality players. When the “ramp and dump” crowd move in then the dump is inevitable and the “metal” had a hefty 30% lopped of its valuation in a matter of weeks as boredom set in and the speculative forces tried to cover their losses elsewhere. It was a classic bear-trap. Its rise had nothing to do with gold, monetary issues or even supply and demand, so that its fall was similarly unfounded and should have come as no surprise.

The spot market price of uranium then proceeded to make a triple bottom with all attempts at revival running into a wall of indifference. Indeed as even the most obscure and scantily traded metals staged rallies of their lows, uranium remained in the too hard basket for pundits to try and call.

It should be noted though that the neophytes in the space never seemed to grasp (to their grief) that the \$120 spot price was scarcely a real indication of anything as the real price is the long-term contract price. The term price for uranium, which is the price most of the utilities pay, initially fell by \$10 to \$80 a

pound - the first such fall reported for an awfully long time. Since then it has settled at just over \$60, still a near 40% premium to the spot price (to which it used to trade at a discount).

The price, when it does rebound (and it is currently upticking yet again as shown in the graph below), is unlikely to see a return to the heady days where the word “uranium” in the name of junior explorer meant an almost immediate stock price escalation. But the price, even at these low levels is still several times above the price which prevailed for several years up until 2004 and there's little doubt that the stimulation in exploration activity the big price increase engendered has thrown up some potentially really profitable deposits even at current price levels. Should the latest price move really suggest a definitive bottom then it is probable that there could be some good bargains to be found in some of the juniors with good deposits, a decent cash position enabling them to ride out the recent downturn in interest, and with oversold stocks.



Aus Am's Projects

We must admit to be biased in this world of tough financing conditions towards companies that have potential to move swiftly into production. Via its merger with Uranium King, Aus Am has attained this characteristic.

Apex

This project is located 270kms east of Reno in Nevada. It is very close to the old silver mining town of Austin. Now reduced to a hamlet, it once reportedly had a population of 10,000 in the late 1900s. The area has good roads but the nearest railhead is at Battle Mountain some 140kms distant from the site.

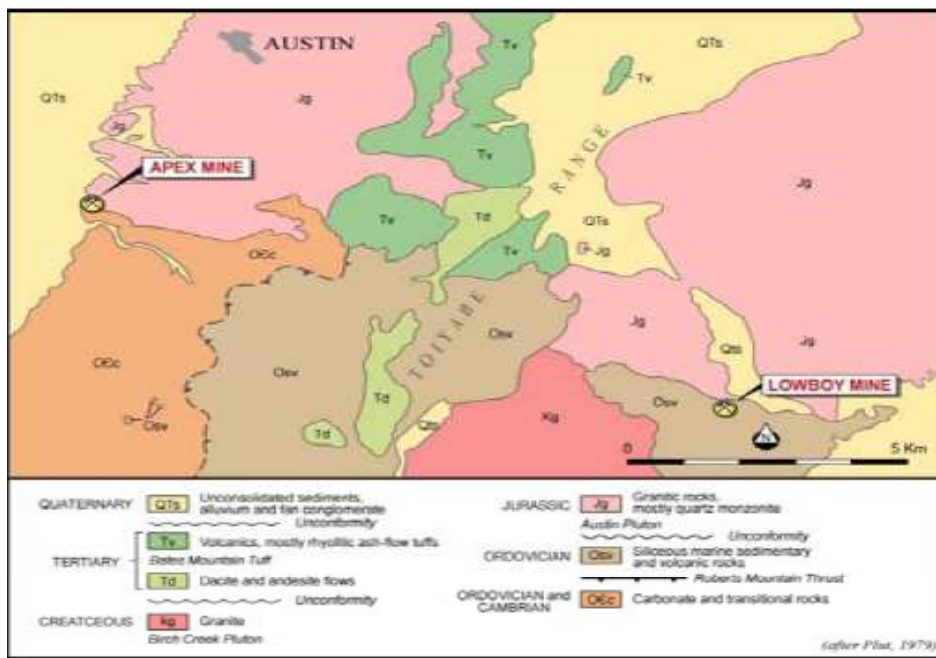
Uranium mineralization was first discovered at the southwest contact of the Austin pluton (Jurassic) with meta-sediments (quartzite – Pre-Cambrian) in 1953. Most of the proven reserves are in the Early Day and Emma claims.

Two individuals, Joe and Rudy Randberg (the owners of Uranium Mines Inc.), launched the mine, by driving 180 feet of tunneling to cut a corner of the Randberg ore body.

In November of 1955, Apex Mineral Corporation leased the Randberg Mine. In the following two years, development work opened up three additional levels in the property, including Emma, Adit 1 and Adit 2. The deposit was mined sporadically up to its closure in 1966. The mine infrastructure (shown below in part) consists mainly of 4,500 feet of stopeing including a shaft and four tunnels. Around 110,000 lbs was produced (grading 0.25%) from 21,039 tons of uranium ore. The bulk of this amount was shipped between 1954 and 1956 to a mill in Salt Lake City, UT.

- Proven (Apex, Diamond & Lowboy) – 928,068 lbs from 604,069 tons grading 0.076% U₃O₈.
- Probably resources (Apex & Lowboy) – 615,505 lbs from 519,921 tons grading 0.06% U₃O₈
- Possible resources (all mineralized zones) – 11.9mn lbs grading 0.05%-0.06% U₃O₈

The latter is the most impressive number and no one else that we have seen has ventured an estimate on the possible resource in the region. The blocks held by Aus Am are obviously expansive and follow what is believed to be the extension through from Apex to Lowboy. Clearly more extensive drilling is needed to move some of this nebulous possible resource into a firmer category.



The map also shows the Lowboy mine in relation to the Apex site. It can be noted that the Toiyabe Range runs between the two sites despite them being only six kilometers apart. (Indeed, the mines are actually classified in distinctly different mining districts).

The Resource

The open cut JORC inferred resource at Apex is 1.55mn lbs grading at 0.07% and has been drilled out on 10 metre and 15 metre centers. There is an additional 500,000 lbs of identified potential within the pit design. If the grade comes in closer to the historical 0.12% level then the resource may be nearly 50% larger. The key now is to advance with the initial pit and brace oneself to be surprised to the upside if the historical grade comes through.



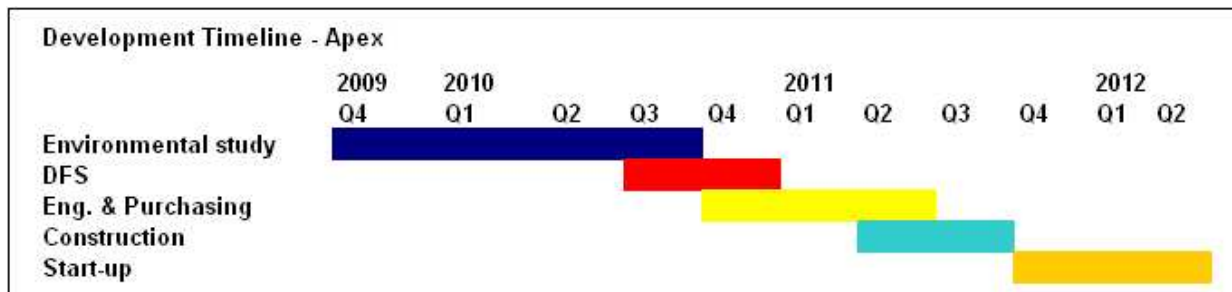
The Move towards Production

While traditionally this deposit has been mined

underground, the tendency is towards exploiting this mine via open-cut. A scoping study was completed in July 2007 defining a heap leach, open cut operation. In the study the geologists took samples down the mine and noted that tunnels had collapsed over time making sampling dangerous and raising questions over the usability of the previous workings. Another interesting point made was that the grades from the previous mining were very high at 0.25% due to focus upon the highest yielding parts of the deposit. Examination of the tailings pile shows that spoils grading a respectable 0.10% were discarded in this highly selective mining style. It is suggested that this was a product of the substantial distance that ore had to be transported for milling in Salt Lake City, UT.

The scoping study suggests a pit of around 200m in depth with a stripping ratio of 3:1. Geochemical work done by Hazen Laboratories of Colorado on the recent sampling suggests that the Apex ore deposits are amenable to heap leaching using a low concentration (3%) of sulfuric acid. The leach tests averaged 80% recoveries over 48 hours.

- The company estimates a capital cost, including permitting, of a modest \$US15 million
- The production target is 1.4 million saleable pounds of U₃O₈
- Projected EBIT of \$US70.5 million
- IRR (including sunk costs) of 72%
- The payback period is estimated at 1.2 years, fairly rapid by most standards.



The timeline above was created by us after discussions with the company. We had noted that the scoping study prepared for UKL took a leisurely (and sequential) approach on the staging of tasks. Moreover that timeline began in 2007 and mooted production starting in 2011. This seemed inconsistent with Aus Am’s desire to move forward fast however the diabolical financing environment for uranium projects means that the company is now looking for its debut production in mid-2012 (which we would note is the start of its FY2013).

The results to date show an ore reserve of 525,000 tons with a grading of 0.077% U₃O₈ containing approximately 1,000,000 lbs. of U₃O₈ with probable reserves of 360,000 lbs. of U₃O₈.

Lowboy

This mine is located six miles SE of the Apex Mining project and is sometimes referred to conjointly as Apex/Lowboy but in our estimation the continuity between the two deposits remains unproven so we prefer to deal with it separately. However, proximity should eventually bring economies of scale from joint exploitation. It lies on the same quartz monzonite contact as Apex, some seven miles SE of Austin on Blackbird Creek. The Lowboy Mine outcrop produced several carloads of uranium ore in the early

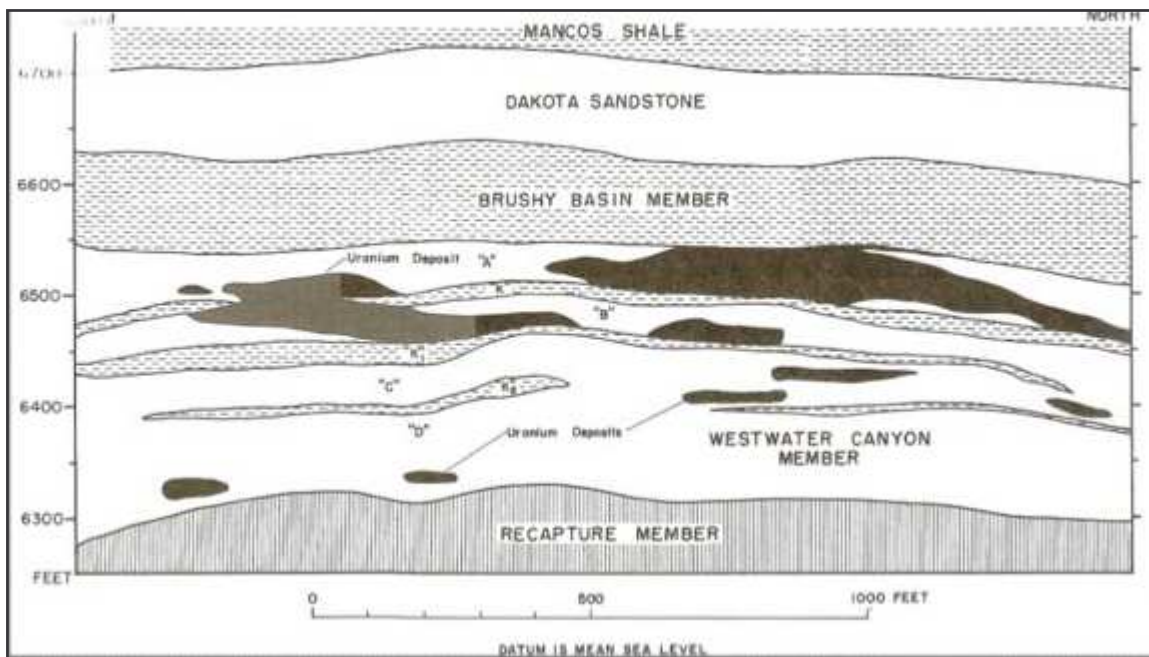
degrees Northeast towards the strike of the mineralized contact, again to be drilled to a depth of approximately 270m.

Recent mapping and radiometric surveys have demonstrated U_3O_8 along the 2000 feet strike has the potential to host 10mn to 20 mn lbs of uranium amenable to heap leaching. Drilling is scheduled to commence in August 2010 on both properties. In addition to this work a ground magnetic survey coupled with aerial photography and surface mapping is scheduled prior to the drilling on Lowboy.

Capex for a heap leach operation are now expected to be considerably less than the original budget as additional capital was required for a yellow cake plant. The company now believes other options that would only require a resin IX plant be constructed with loaded resin shipped to existing yellow cake plants with excess capacity.

Rio Puerco

This project is located 60 kms NW of Albuquerque in New Mexico. The property is located on one of the most productive uranium bearing trends in the world, which has to date produced well over 340 million pounds of U_3O_8 between 1950 and 1968, when it produced 40% of the US uranium output.



The Rio Puerco ore deposits are similar to those found in many deposits of the Grant Mineral Belt. A typical section (though not of Rio Puerco) is shown in the diagram above. The principle host rocks for the uranium deposits are Westwater Canyon Member and Jackpile Sandstone of the Morrison Formation, in plainer language mudstone, shale and sandstone from the Jurassic period in bands between 120 and 150 metres thick. These deposits formed when oxidized groundwater that had leached uranium from surface rocks flowed down into aquifers, where it was reduced to precipitate coffinite, the common ore mineral of uranium in this mining district. In some deposits, reduction took place along curved zones know as roll-fronts, which represent the transition from oxidized to reduced conditions in the aquifer.

The ore deposits at Rio Puerco are described as stacked ore pods within four sandstone units of the Morrison formation, with coffinite being the principle mineral of the ore deposits. This uranium deposit is a roll-front type deposit in the Westwater Canyon Sandstone and is restricted to the sandstone units by upper and lower impermeable mudstone beds.

Karl Meyers first intercepted uranium at this site in 1968 in a drill hole at 260 metres depth. The deposit was then exploited, in a manner of speaking, by Kerr McGee, which had purchased the project from Meyers. Kerr McGee then developed it as a *room & pillar* underground mine from the 1970 through to 1980. The company spent around \$17mn developing the resource.



This illustration has been prepared for inclusion in this prospectus, July 2006.

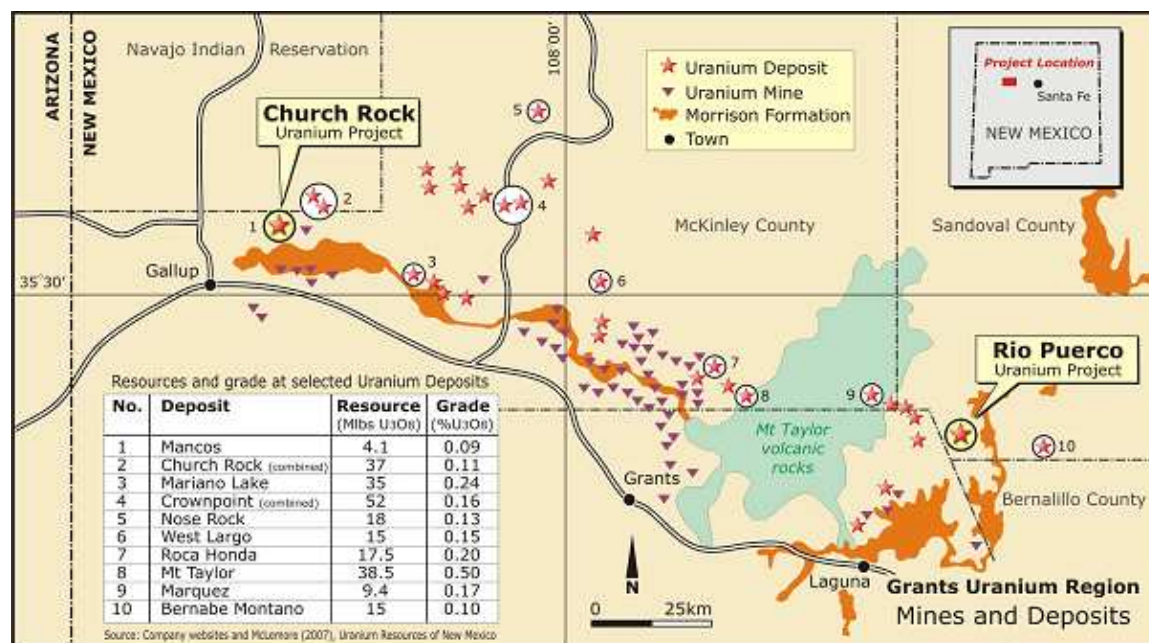
The site had around 250,000 metres of drilling completed in nearly 1,100 drill holes. The aforementioned “mine” created by Kerr-McGee was a 260 metre vertical shaft (with several hundred feet of drives accessing various ore blocks identified from drilling) from which a 9,000 tonne bulk sample was extracted for metallurgical confirmation of the resource. The softening market for uranium around this time resulted in Kerr McGee returning the property to Karl Meyers who later sold this on (via the METCO corporate structure) into Uranium King at the time of its listing on the ASX in 2006.

The JORC Inferred underground resources of 11.45 million lbs at a 0.03% cutoff is derived from the 1975 Kerr-McGee drill-indicated source. In the resource report dated July 2006, prepared by Ravensgate, a study was made of the Kerr-McGee data output using more current methodology of assessing the potential size of the resource in

light that the ore is in flat lenses of up to six meters thick that coalesce into elongate ore bodies up to 750 metres long and 240 meters wide. They regarded these ore bodies as being stratabound at a depth

of approximately 180 to 240 metres below the measured surface where the current shaft is collared. The Ravensgate study of Rio Puerco ended in saying that based upon the data to date and the implied geometry then the lateral extent of the exploration target could contain at least threefold the current defined resource.

The company is undertaking exploration with a goal of adding more than ten million extra pounds to the resource. The map below shows the region where the mine is located (the Church Rock site to the left is also in Aus Am's portfolio). As can be noted from the inserted table the area is fairly thick with exploration activity and sizeable resources have been identified by other companies. The grade at Mt Taylor, for example, appears stunningly high (and on a not inconsiderable resource also) while Roca Honda (Strathmore: STM.v) in the same vicinity is also showing excellent grades.



The company estimates that bringing Rio Puerco into production would involve a capital spend of around \$40mn for dewatering and other mine rehabilitation. Access to the mine is good with unsealed roads. The general landscape is grassy plateaux incised with canyons to form mesas. The site has good water supply, according to the 2006 engineers report, from water bores in the region and there is reticulated power and a diesel powered powerhouse dating back to the days of the Kerr McGee mine. Most importantly permits have been approved for milling facilities (by other companies) in the area, with the government encouraging and promoting uranium production by way of ISL.

AusAm has produced updated 3D models of the orebody, which have enabled further projections to be made on additional ore sources not yet tested. A drilling program is scheduled to take place later this year in which a number of holes will be twinned with previous holes to allow validation of previous work and is expected to lead to additional resources targeting 20m to 30m lbs. At the same time as the drilling, additional geophysical work is to be carried out to investigate the amenability of the Rio Puerco to ISL methodology which could have significant implications on this project. We would note that when Kerr McGee first developed this mine in the 1970's ISL technology was not well known and scarcely utilised.

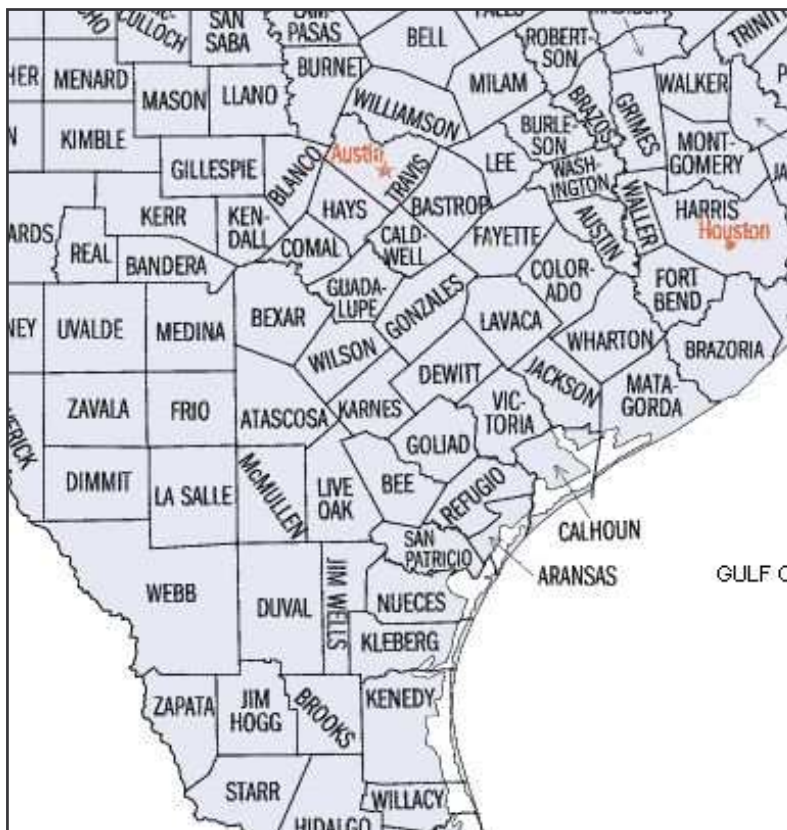
The push into Texas

Largely overlooked in the first flush of the uranium stampede Texas has come, since 2008, to be seen as highly prospective for uranium mining, in the practical sense due to its suitability (and history of) ISL uranium extraction. The renaissance of Uranium Energy Corp (UEC) has largely been the result of its Texas focus. The other player of note is Uranium Resources (URRE) that has not been so felicitous having generated some bad local relations that have stymied its attempts to produce from its well-established plant in the State and debilitated its finances.

Late in the first quarter Aus Am acquired several new uranium leases in the "Texas Uranium Belt", a previously explored and well-delineated area in the south east of the state. These leases will form part of what will from now be referred to as the Lone Star uranium project and are located in Fayette county (which the company refers to as the 'North Trend'), which is two counties SE of Austin. Most of Uranium Energy Corp's leases are located in Duval County and Goliad County, commonly known as the "South Trend". Aus Am currently has under review properties in Duval, Jim Hogg, Wells and Gonzales counties, in the South Trend, where there are known deposits and Karnes, and other counties, to the NW of Austin which it classifies as the "Central Trend".

On the map at the right can be seen Fayette County halfway between the cities of Austin and Houston. Goliad where UEC operates is several counties to the south-west of Fayette.

This first package of projects has been leased to a 90% Aus Am-owned subsidiary for five years with an option of another five years. It holds all mineral rights on the properties during that period of time. The remaining 10% is owned by a number of individuals who introduced Aus Am to the properties and includes the geologist, Chet Nichols, who explored and oversaw the drilling of these projects for Union Carbide in the late 1960's. He has been retained to manage the exploration and development of these properties.



It is hoped that this might reach an initial four million lbs of mineralization but this has no firm substance as yet, however, this targeted number is based on historic exploration data assembled by Union Carbide

taking into account approximately between 1,250,000 and 1,750,000 tonnes of mineralisation grading on average 0.12%-0.15% (1200-1500 ppm) U3O8 mineralisation for 1,800-1,900 tonnes U3O8 or approximately four million pounds U3O8.

This note above needs to be considered when reading the PowerPoint presentation released 30 April 2010 when it discusses our 4 million pound exploration target at the Lone Star uranium project.

The previous works performed by Union Carbide indicated that the potential mineralisation is very shallow (from 10 ft to 150 ft) and amenable to in situ recovery. These leases are also located less than 100km's from existing licensed uranium plants.

A permitting and drilling program will be undertaken immediately with an exploration target of defining a JORC-compliant resource. Aus Am is desirous of acquiring additional properties that it has identified in other areas of Texas.

Uranium Resources (URRE) – down on its luck

Making ISL work for Aus Am is dependent upon access to a processing plant otherwise it faces the considerable expense of constructing a facility. Fortunately Uranium Resources has a plant available at Rosita in Goliad county and is amenable to receiving material to process for third parties (particularly as it isn't processing any product of its own due to some regulatory and community run-ins that have shut down its ISL operations in the area).

URRE's stated activities are the exploration for, development of and mining of uranium. Since its incorporation in 1977, it has produced over seven million pounds of uranium by in-situ leaching methods at its Texas locations, where it has ISL mining projects that are currently in limbo at its Kingsville Dome, Rosita and Vasquez projects due to its "technical" difficulties.



The in-situ process uses injection and extraction wells to circulate water through the ore body, removing the mineral, but leaving the rock undisturbed. Each well is just like the water well used to supply water to a home.

The native groundwater has a sodium bicarbonate solution similar to club soda added to it. Gaseous oxygen is also added to mobilize the uranium, which is then "washed" from the sand grains by the carbonate. URRE likens the technique to that of a home-based water softener, except on a much larger

scale, to remove the mineral from solution. The problem for URRE is that there have been escapes of uranium material in solution into the water table, most particularly that of the town of Kingsville.

The Uranium Resources' Rosita Plant, which is idle, but in excellent turnkey condition, with annual production capability of 800,000 lbs (that can be doubled for a minimum expenditure) is located in northern Duval county, very short trucking distance (on state highways) from the Aus Am properties in Fayette county. It is fairly easy, therefore, to discern why a JV, or better yet, a merger with URI makes sense.

Exiting Australian activities

The "Australian" in the company's new name refers to the management and its intellectual approach as the last of the Australian assets are being jettisoned. The company is resolving those assets that it has classified as non-core. The company still controls a number of Australian gold and base metal assets that pre-dated its uranium phase. An agreement has been reached for these to be sold to a public unlisted company named Forge Resources Limited for consideration of three million shares. The final agreement has been signed with Forge and will apply shortly thereafter for admission to list on the ASX. Aus Am's shares will be restricted for 12 months, and at listing will have a value of \$600,000 based on Forge's listing price of 20 cents.

Intriguing Sidelines

Having ditched the U and non-U assets in Australia it is interesting to note that the company has now started accumulating opportunistically some non-U assets in Arizona. As is well known Arizona is not the friendliest of territories for uranium development but is highly prospective and open for other metals. There are two prospects of relevance:

The Bernard Gold Prospect, which is located in the western part of the state, and is also considered prospective for uranium and manganese. The exploration is being funded by Cristol Enterprises LLC of St Louis under a AUD\$5.3mn farm-in agreement. The company was encouraged by drill results recorded at the Bernard gold project on its 6-hole 1,076m drill program in 2009 (the results of which were announced in February 2010), though we thought that more work was needed to generate genuine excitement from us. Exploration is to be accelerated with second phase drilling program that commenced in February 2010.

The other exploration effort might be called the White Picacho project in Maricopa and Yavapai Counties, Arizona where the its wholly-owned subsidiary, Uranium Company of Arizona (UCA), has staked seven contiguous lode claims, comprising 140 acres. An application for an exploration permit has been submitted to the State of Arizona for an additional 539 acres. The company has recently launched a preliminary evaluation of Lithium-Enriched Pegmatites that involved spending several days collecting and examining pegmatite samples from central Arizona. These pegmatites have been known for several decades and in the 1950's several were mined for feldspar. One or two may have been mined for lithium minerals or tantalum.

We suspect that if any of these ventures prosper then they will be used to constitute a separate vehicle once the uranium side of the business starts to take off. This may take place through a demerger or some similar type of spin-off.

Management Team

The management team at Aus Am is a mix of Aus Am and Uranium King components and a blend of financial and geological skillsets.

Jim Malone, is the Executive Chairman and President. He carried over from Uranium King into the new structure. He is a Commerce graduate from the University Of Western Australia worked for Arthur Anderson accountants, Hartley Poynton stockbrokers and the investment banks, CSFB and Lehman Brothers, in London. Since 2000, Mr. Malone has worked in the resources industry and has been involved with the start up, listing and management of six ASX-listed and two non-listed resource companies through a diverse range of commodities including gold, base metals, uranium, oil and gas and industrial minerals. These companies have operated projects in Latin America, Europe, Africa, the USA and Australia.

Mr Malone is currently Chairman of Quest Petroleum Ltd and was a founder and currently is a non-executive Director of both Latin Gold Ltd and Richmond Mining Ltd. In addition to this he has previously been involved as a founder and former Director of Livingstone Petroleum (Chairman) Uranium King (Executive Director) and Catalyst Metals Ltd. He has also previously served on the Board of Directors of NSL Consolidated Ltd , Atlantic Ltd and Discovery Capital as a non-executive Director.

Denis Geldard is the CEO and Director of Operations. He has over 40 years technical and operational experience in exploration and project development in Australia and internationally, including the USA. He is a graduate from the Kalgoorlie School of Mines in Western Australia. His experience in geology and exploration in having worked with gold, mineral sands, tin, iron ore and uranium. He pioneered the first commercial gold heap leach project in Australia and developed the first commercial carbon in pulp process plant in Australia. He is considered one of the world's leading experts on heap leach mining operations similar to AusAm's planned Apex-Lowboy uranium project in Nevada.

Michael Duncan is another non-executive director incorporated from UKL (where he was Executive Director) has a B.Sc in Mechanical Engineering from the University of Arizona. He subsequently moved into the aerospace industry where he represented the Boeing and McDonald Douglas on such projects as the 757 Airbus, the Saturn V missile, and the Manned Orbital Space Laboratory. In 1970, he returned to the University of Arizona to attend the MBA program and in 1971 he became a principal in a Tucson based real estate investment syndication firm. In 1973 he became Acquisition Director for a public company, MultiVest, Inc, which was, at the time, the largest blind-pool limited partnership in the United States. In 1979, he became the co-founder and president of the U.S. Equity Corporation, an Indianapolis-based investment and development company.

The last non-executive director brings political savvy to the mix but this is less relevant now that the bulk of the Australian uranium assets have been shed. Greg Barns was also a non-executive director at UKL. He holds a BA/LLB from Monash University in Melbourne. He has been a political adviser to a number of state and federal ministers and premiers (State governors), including a role as Chief of Staff to former

Federal Finance Minister John Fahey. He was the inaugural CEO of the Australian Gold Council from 2000-02. Mr Barns is a founding director of Republic Gold Ltd, which has tungsten and gold projects in Australia and South America.

Earnings Outlook

While Aus Am currently does not have a revenue stream it is conceivable that it shall see cashflow before 2013 and this separates the company from most of the uranium explorer universe. The initial flows would come from starting up production at the Apex-Lowboy site in Nevada in mid 2012. The company believes it could get Rio Puerco into production sometime in 2013. Apex coming into production would make Aus Am essentially self-financing.

Australian American Mining						
Year ending June (US\$m)	FY14e	FY13e	FY12e	FY11e	FY10e	FY09
Revenues	96.64	11.87				0
Operating expenses	41.53	3.53				0
Depreciation & amortisation	6.40	0.70	0.00	0.00	0.00	0.113
Gross profit	48.70	7.64	0.00	0.00	0.00	-0.113
SG&A	3.60	2.70	2.30	2.10	2.30	3.207
Exploration expense	1.80	1.20	1.40	1.30	1.70	2.503
Operating profit	43.30	3.74	-3.70	-3.40	-4.00	-5.82
Non-operating gains	0.00	0.00	0.00	0.00	0.00	-19.774
Net interest	-1.20	-1.80	-1.60	0.00	0.05	0.419
Pre-tax result	42.10	1.94	-5.30	-3.40	-3.95	-25.18
Tax	9.26	0.54	-1.30	-1.00	-1.20	-8.00
Post-tax Result	32.84	1.40	-4.00	-2.40	-2.75	-17.18
Shares on issue (mn)	157	157	157	157	157	103.37
EPS	0.21	0.01	-0.03	-0.02	-0.02	-0.17
Tax rate	22%	28%	25%	29%	30%	32%

We have constructed a model (shown below) using some metrics provided by the company. We do not have many issues with this model, except that it does mix combined revenue over several different time frames. As we noted the two projects will be separated by over a year in time (at least). Thus the combined revenue forecast is more pertinent to 2014, presuming that both are running at expected capacity.

Revenue Model - US Properties		Apex-Lowboy	Rio Puerco	Combined
Resource	<i>lbs mn</i>	1.4	11.5	
	<i>tonnes</i>	614,000	5,750,000	
Capital Cost	<i>US\$mn</i>	15	25*/ 35 (in situ leach *)	
Operating Cost	<i>US\$ per lb</i>	22	35	
First Production		2012	2013	
Mine Life		3 years +	6-10 years +	
Capacity	<i>K tpa</i>	205	575	
Head Grade	<i>% U3O8</i>	0.07 to 0.12%	0.07 to 0.12%	
Recovery		80%	90%	
Production	<i>lbspa U3O8</i>	320,900	1,970,000	2,291,500
EBITDA	<i>AUD\$ mn</i>			
Pre-tax Profit				
Per Share				
Assumptions				
Interest rate		9%		
Finance		100% debt		
Aud/USD		0.92		
Uranium Price		US\$74 per lb		

The financing assumption here is 100% but we suspect the company will be able to do a raising before construction starts at Apex. This would lower interest costs somewhat. The consequent expansion at Rio Puerco might also be funded out of Apex cashflow. A placing, sooner rather than later would increase shares on issue, and reduce EPS.

The capital costs of the mines reflect their different natures. While the Apex cost is high per ton due to the mine being open-cut in the low grade halo of the previous operation, the Rio Puerco mine is underground, normally more expensive, but has the advantage of the room and pillar construction being well-advanced before Kerr-McGee mothballed the facility in the 1970s. Most of the infrastructure that is lacking is above ground. In an ideal world, Rio Puerco, with its larger deposit and higher headgrade, would be the project to advance with first.

The assumed uranium price in this model is US\$74 per lb. This is high vis-à-vis the current spot price but the \$74 represents where we think contract prices (which are usually higher than spot) will be by the time production begins. With Apex producing 160 tpa of U₃O₈ the sales would almost certainly be contract, rather than spot. Thus, we feel the model uses a realistic number.

Valuation

The real source of Aus Am's underpinning comes from the US properties. While it appears that we downplay the Rio Puerco asset, we actually find it extremely interesting. In a perfect world Aus Am would have \$100mn in cash to hand and be able to move Apex/Lowboy and Rio Puerco forward in a synchronized basis while pursuing the Texas ISL opportunity concurrently. The exigencies of the moment indicate a more sequential approach but this is not to detract from Rio Puerco's high potential to be a cashflow contributor within 3-4 years with production startup being funded out of Apex cashflow.

Putting an asset value on the parts is even more difficult but it is illustrative to look at the recent transaction where UEC sold in March 2010 its 49% of the Cebolleta uranium deposit in New Mexico for \$11 million. This asset had a NI43-101 compliant resource of 10 million pounds at 1200 ppm (0.12%) and thus the price represented approximately \$1.10 per pound. Using this metric Aus Am's interest in Rio Puerco would be valued at around \$11.5 million.

Potential risks

The most obvious potential pitfall is the uranium price. As we noted earlier there is a general feeling that the froth has been blown off the beer with the retreat from the highs above \$120. We expect the contract price to fluctuate around in the \$60-\$90 range over the next few years with a potential for upside breakout should some of the talk of more nuclear power plant building in the West actually show signs of coming to fruition. Unfortunately the novice Uranium investors tends to focus more on the down and out spot price which is not really a reliable indicator of anything. It remains stubbornly below \$50 at this time.

Local political risk is also a factor. Things are somewhat easier in the US with the jurisdictions of Nevada and New Mexico being firmly pro-uranium mining and Texas being very receptive to ISL mining of uranium. The Nevada mines are better positioned than the NM site at Rio Puerco (which is in close proximity to Albuquerque).

At the moment funding is tough and Aus Am will need to get more financing in place to start Apex on the way to production. Thus funding will be needed in either late-2010 for immediate expenses of drilling new properties and probably again early in 2011 to get the ball moving on an ISL strategy at the Texas sites.

The final potential negative is the perennial one of bad markets. Uranium has become accustomed to weak markets for decades now with 2006-2008 proving to have been a false dawn. But was it? All we need now is for uranium to make a belated pursuit of the other metals that have more than a year of upward momentum behind them (*pace* the recent pullback). It is doubtful that the spot price for uranium will get worse. Now all we need is for supply/demand considerations to start to work their way into the pricing equation.

Conclusion

Just as the rising tide of uranium prices in the middle of the decade created a plethora of uranium stock IPOs, the receding tide has left many of these names floundering breathless (and cashless) on the beach.

The price of uranium seems to have stabilized giving hope that some of the long term fundamental bullish factors for the metal will come back into focus, without the frenzied hype that promoters had previously invested in it.

This new landscape is tough going for the survivors of the shakeout but ultimately the cashed up or those with production shall quite literally “inherit the earth”. Traditional mining investors largely got out of the way when it became clear in 2006 and 2007 that neophytes were rampaging loose in the uranium stock and spot commodity markets. If they did anything, the old timers focused on the tried and true producing names and avoided the proliferating juniors. This implies that there are investors out there who were waiting for the inevitable shakeout and are constantly testing to see if a bottom has been made after the froth has been blown off the spot market. As we have noted, the spot market is scarcely indicative of anything in uranium’s case but it did provide the feedback loop that drove the stock price of the junior miners.

Aus Am is doing all the right things at this point. It has crawled out from beneath the rubble in the uranium sub-sector. It is moderately cashed up. Its recent ADR listing moves it into a less crowded uranium investor space while giving it a higher profile and differentiates it from the industry *also-rans*. Its merger with Uranium King briefly bulked up its market capitalization and diversified its geographical profile but ultimately that counted for naught in the “nuclear winter” in the sector. It did however bring the company projects that moved it closer to the “producer” qualification. This will help it place a distance between itself and the damned. The Apex/Lowboy mine is relatively fast-track to production and with a fast payback. The onset of production will give Aus Am a bottom line to justify its market capitalization that feeds through to further development of the Rio Puerco mine.

This adds up to a cashed up situation by 2012 and a firming valuation that will enable Aus Am to roam about opportunistically stealing the pennies from the eyes of the sector’s moribund. There are good projects out there but in hands that are unlikely to be able to move the ball forward. Aus Am, with enhanced financial resources, should be able to bulk up at the expense of those going into extinction.

Thus it would be best to describe Aus Am as being on the cusp of moving from survival mode into expansion mode while the rest of the pack roam around shell-shocked at the fate that has befallen them. So if Aus Am is not on the road to annihilation it would appear that its current valuation severely underestimates its potential worth. We therefore rate Aus Am as a **Long** at this time with a twelve-month price target for the ADR of US 75 cts.



Important disclosures

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