

# HALLGARTEN & COMPANY

## Initiating Coverage

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## US Nickel (USN.ax) Strategy: Long

Key Metrics			
Price (AUD)	\$	0.17	
12-Month Target Price (AUD)	\$	0.45	
Upside to Target		165%	
High-low (12 mth)		\$0.09 - \$0.21	
Market Cap (AUD mn)	\$	37.4	
Shares Outstanding (millions)		211.3	
		<b>2010e</b>	<b>2011e</b> <b>2012e</b>
Consensus EPS		n/a	n/a    n/a
Hallgarten EPS		n/a	\$0.00    \$0.04
P/E		n/a	110.0    4.7
Dividend (est.)	\$	n/a	\$ 0.01    \$ 0.01
Yield		0.0%	5.9%    5.9%

# US Nickel

## Tapping an Historic Vein

- + The company abandoned its bid to take over Argent Minerals (in which it held a large stake) and instead acquired the Bullant Mine from Argent in exchange for stock in USN and cancellation of USN's holding in Argent
- + The prospective name-change to Kalgoorlie Mining Company (ASX: KMC) will more accurately reflect the new focus
- + The company is very oriented towards adding more global institutional investors to its register and reaching out in North America
- + The management team are experienced in mining in Western Australia and are dedicated to getting the mine back into production on minimal capex
- + Investors could get a sweetener in the form of a spin-off of the nickel assets in North America
- ✗ The anomalous mix of Australian gold mining and nickel prospects in the US is confusing to investors and detracts from both stories.
- ✗ Cash costs will be in a higher range due to a change in mining method (Air Leg techniques, this has been successful in other operating Western Australian mines )AUD\$750-850 per oz of Au though at current gold prices it still provides a healthy profit margin.

### Some Background

The name US Nickel at this point in time is not exactly a total misnomer but could better reflect the major shift in recent times into the Australian gold space. However, the current duality at the company might only be a temporary phenomenon as we would not be surprised to see the two disparate activities divided up again via a demerger operation or via the US Nickel assets.

Prior to June 2010 the corporate vehicle was an industrial company called Lumacom (ASX:LUM) however the company was fully reconstructed under chapter 1 and 2 of the Australian Corporations Act. The stock returned to listing at a 20-cent equivalent price as USN. The use of the old structure only assisted with providing a spread of shareholders.

The first focus of the new vehicle was several nickel prospects in North America. It was in this mode that we first met the company in late 2010 and our interest was piqued in light of our previous coverage of the polymetallic district of the Duluth Complex in Minnesota (Polymet, Duluth Metals, Franconia).

### The Argent Bid

When we first spoke to US Nickel it was in the throes of making an offer for Argent Minerals (ARD.ax) as a means of getting full control of the Bullant asset which Argent had eventually picked up from Barrick. Argent Minerals had acquired the Bullant gold mine from Barrick in July 2010 for more than AUD\$5.2 mn in cash and 350,000 Argent shares. Argent was a company in which US Nickel already had a 23% stake,

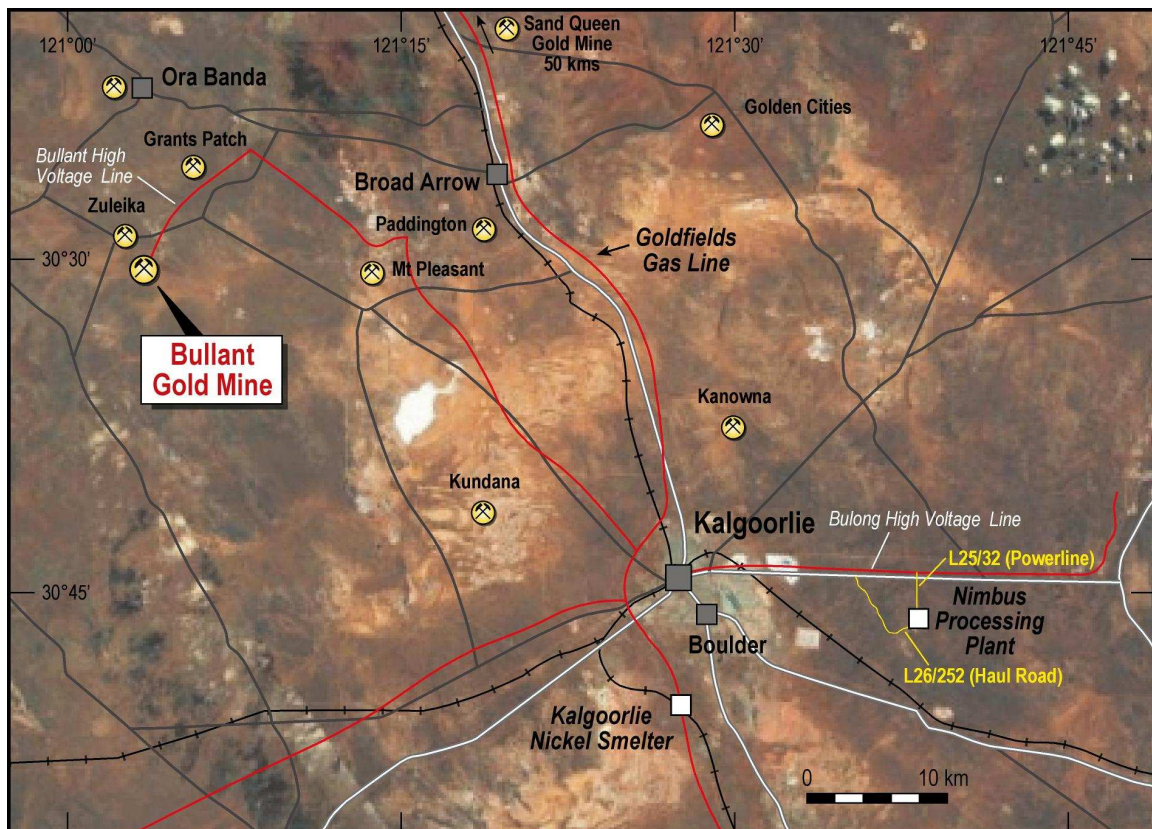
as well a common director. However, in early December 2010, the company announced that it had come to an agreement with Argent Minerals Ltd acquire the Bullant mine and desist from its Argent takeover.

The terms for this were:

- Argent agreed to sell the Bullant Gold Project to US Nickel in return for US Nickel issuing 44,000,000 fully paid ordinary shares and consenting to the cancellation of 19,500,000 Argent shares held by US Nickel. The US Nickel Shares would then be distributed to Argent's shareholders
- US Nickel agreed to withdraw and not proceed with its proposed takeover offer for Argent.

The agreement was unanimously supported by both the Argent and US Nickel boards.

US Nickel claimed that this outcome represented a potentially cleaner acquisition and provided its shareholders with direct exposure to any early development success at Bullant.



### Bullant – the background

The Bullant property in Western Australia has long been an asset deeply embedded in Barrick Gold, a stock we scarcely give attention to. However, when US Nickel started talking about its attempts to get its hands on the Bullant property, it was not the first time we had heard of it. Indeed, in early 2009 when we were researching Reed Resources (RDR.ax) which is best known for its spodumene mine, the

company had told us that they were imminently going to acquire the Bullant mine, combine it with their existing sub-sized precious metals operations and most likely spin it out as a standalone gold entity. That plan came to grief in the first half of 2010 and the company moved on to other things (most recently buying the vintage Meekatharra mine).

### The Bullant - History

The Bullant tenement package, including the Bullant underground gold mine, is located 20 kilometres south-west of Ora Banda and 65 Kilometres north-west of Kalgoorlie (as shown in the map above). Access from Kalgoorlie is north via the sealed Menzies Highway, then west along the Broad Arrow to Ora Banda Road, then south via the unsealed Bullant access road. The tenements M16/14 and M16/15 are located in the Coolgardie Mineral Field within the Kunanalling District.

The historical production at the mine consists of total production of 2.35 mn tonnes @ 4.69 g/t Au for 354,216 ounces, of which:

- Open pit: 388,809 tonnes @ 2.24 g/t Au for 25,907 ounces
- Underground: 1,951,943 tonnes at 5.14 g/t Au for 322,632 ounces

The production averaged 630 ounces per vertical metre in the underground mine.

The mine was closed by Barrick in December 2009 following underground production between 2002 and December 2009. Production in its last year (2009) was 144,750 tonnes at 5.9 g/t gold for 27,400 ounces of gold.

### Bullant Resource as at 31 December 2009

	Measured Resource			Indicated Resource			Inferred Resource		
	Tonnes	Grade	Ounces	Tonnes	Grade	Ounces	Tonnes	Grade	Ounces
<b>East Lode</b>	28,000	3.9	3,500	14,000	4.9	2,200	62,000	4.7	9,400
<b>Main Lode</b>	13,000	4.6	1,900	243,000	5.8	45,000	534,000	5.1	87,200
<b>Total</b>	41,000	4.1	5,400	257,000	5.7	47,200	596,000	5.0	96,600

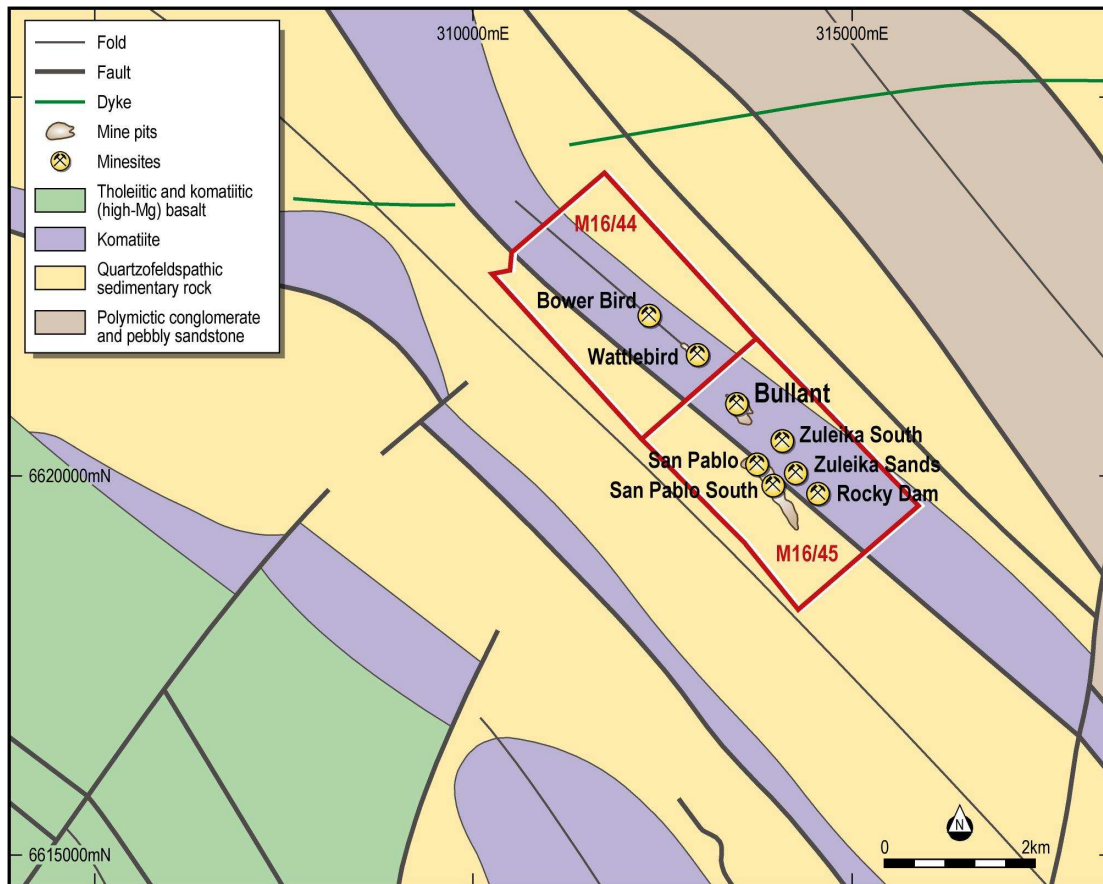
Source: Barrick

### Geology & mineralisation

The deposit is located in the western margin of the regionally extensive Norseman-Wiluna Belt, lying within the Coolgardie Domain of the Kalgoorlie Terrane. The Coolgardie Domain consists of tholeiitic, high-magnesian basalts and komatiites, along with a felsic to intermediate volcano-sedimentary sequence termed the Blag Flag Beds. Dolerites and gabbros intrude these lithologies, along with syntectonic stocks of monzogranitic, tonalitic and granodioritic composition.

The regional geology (shown in the map that follows) of the Bullant area is dominated by the curiously named Bolshevic syncline, that comprises a sequence of folded mafic and ultramafic rocks and interflow sediments constrained by the Zulieka Shear Zone in the east and by the Kunanalling Shear Zone in the

west. These two shear zones are major crustal fault structures traceable for hundreds of kilometres along strike.



The gold mineralisation at the Bullant project is hosted in four main reefs, the Main, East, West and Cross Lodes. The Main and East lodes to date have hosted the majority of the gold mineralisation mined at the project, and are hosted in biotite altered Bent Tree basalt. The two lodes strike at 320° and dip steeply to the east. The Cross Lode is a linking structure between the Main and East; is more brittle in nature and is characterised by a mineralised quartz vein. The Main Lode strikes parallel to the Zuleika Shear Zone, and has minor structures intersecting it as splays from the Zuleika Shear Zone, which typically demonstrate high grades at the intersection lineation. The West Lode is located 10 to 20 metres to the west of the Main Lode and was discovered when intersected in the decline.

The project is composed also of four different target types. These are the area below the current mine ("The Deeps"), the areas at the sides of the current mine, various open pits scattered around the U/G mine and some shallow paleochannel prospects in the vicinity. We shall discuss these here:

### **Bullant Deeps**

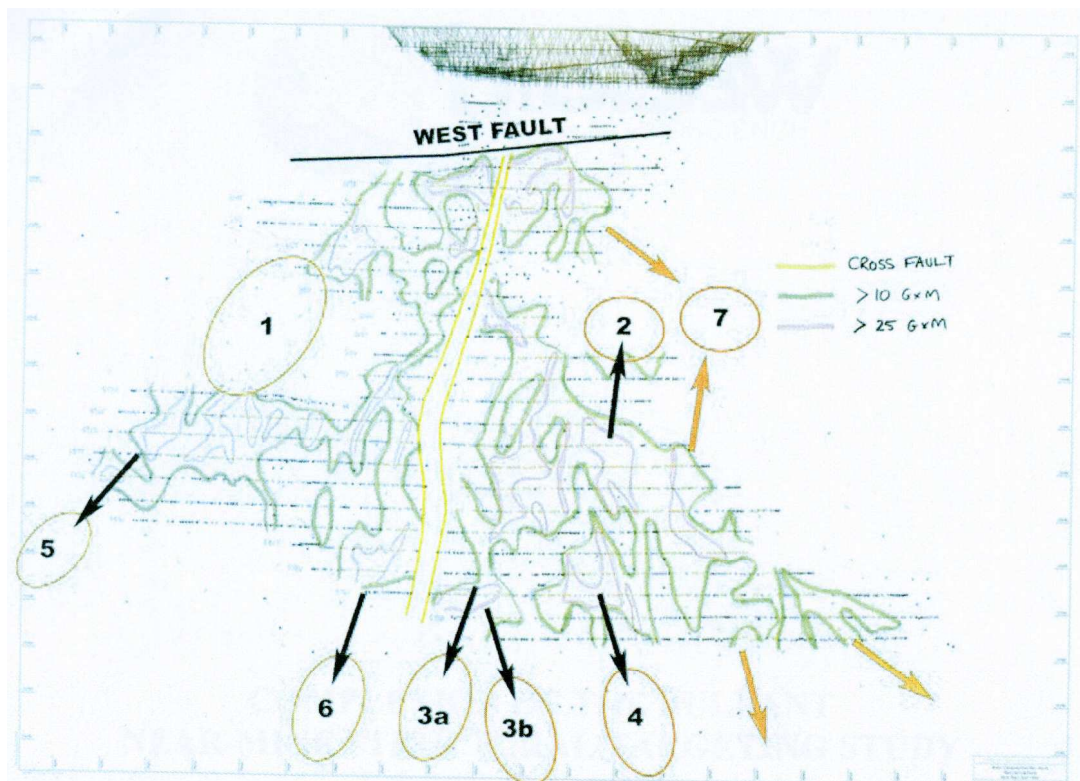
Bullant has been thus far mined to a vertical depth of 700 metres. The company feels that potential exists below the current defined depth of the Barrick resource. Three deep holes BUGD615 to 617 were drilled and have intersected worthwhile mineralisation:

**BUGD615: 2 m @ 5.49 g/t Au (210 metres below current Barrick resource depth)**

**BUGD616: 2 m @ 19.14 g/t Au including 0.5 m @ 56.2 g/t Au and 1.9 m @ 18.11 g/t Au (330 metres below current Barrick resource depth)**

**BUGD617: 1 m @ 6.30 g/t Au (45 metres below current Barrick resource depth)**

Significant mineralisation exists to a depth of 330 metres below the current resource. The company feels that potential exists for a further 200,000 ounces (based on the 630 ounces per vertical metre achieved through production). However further surface and underground drilling is required to understand the resource potential of the Bullant Deeps.



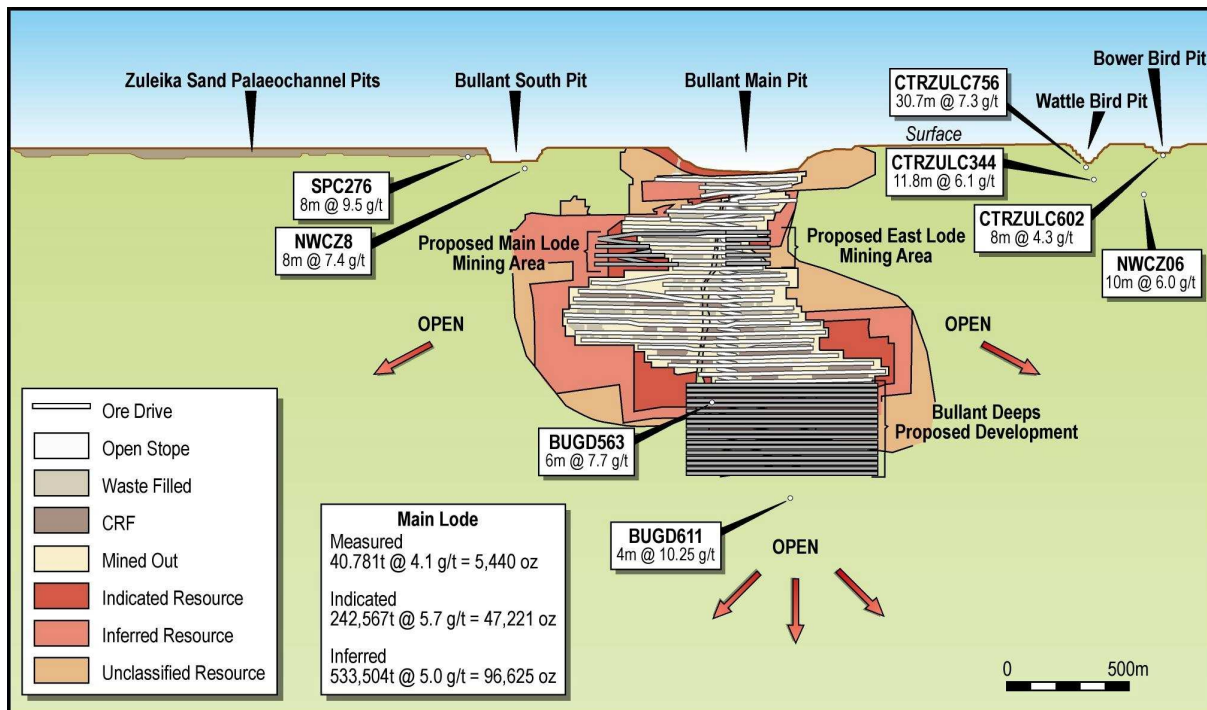
### Bullant Mid North

Structural studies (see cross-section above) undertaken by Jigsaw Geoscience indicate potential for further mineralisation to exist in target positions 2 and 7. This area is outside the current Barrick resource outline. Position 1 was a Jigsaw target and mineralisation was successfully defined, and now is part of the current Barrick resource outline. The company feels that several significant intersections merit further pursuit including drillholes:

- BUGD457: 1.49 m @ 9.73 g/t Au

➤ BUGD456: 4.65 m @ 8.56 g/t Au

The broad cross-section (below) of the Bullant Main Lode covers the bulk of the complex and shows the various areas being pursued and some select drill results that have spurred consideration of further work in those areas.



### Bullant South

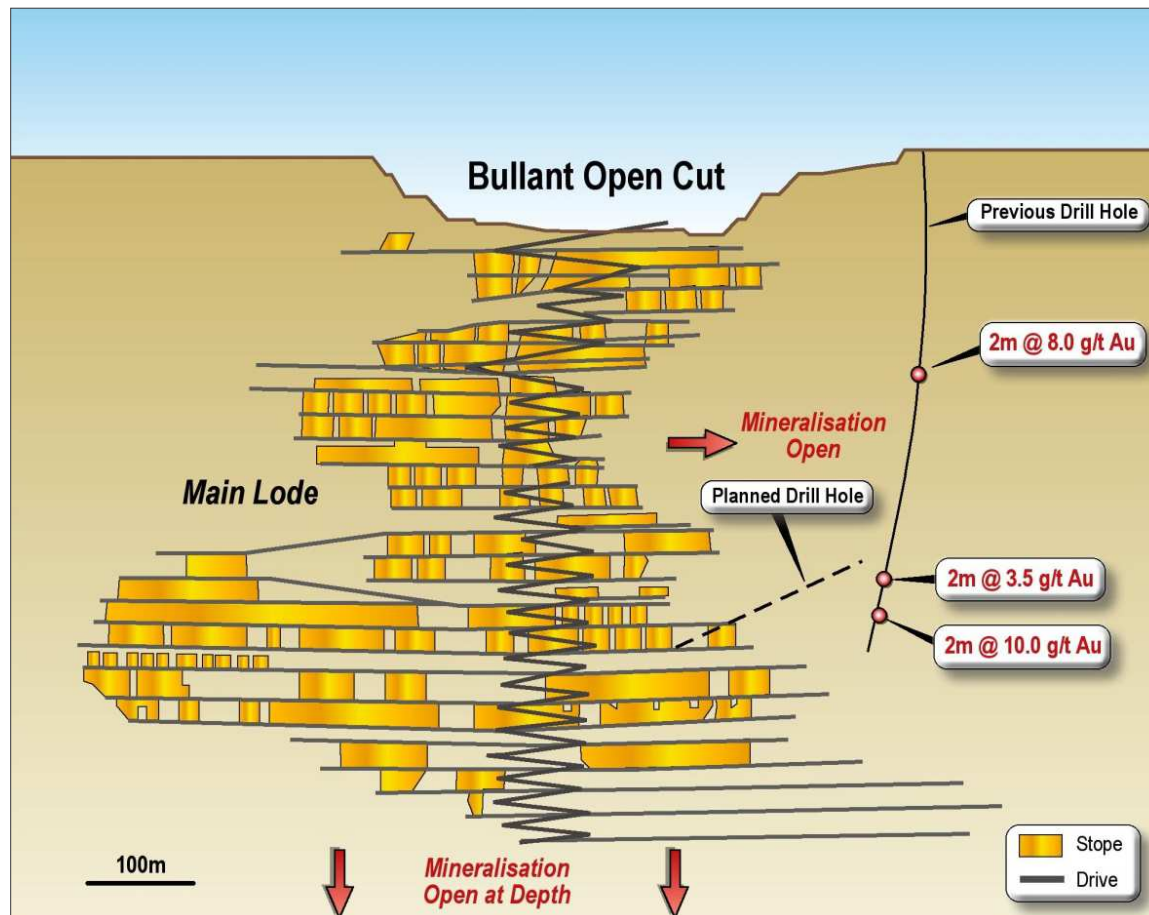
Indicative of the narrow focus of Barrick at the project is that, despite the southerly plunge of the Bullant Main Lode, there has been little drilling undertaken south of the workings.

Development of the 6152 level at Bullant extended definition of the Main Lode well outside the resource limits. The main lode pinched to uneconomic widths at the end of this drive, although gold grade tenor was still high at +10 g/t Au.

Four holes completed in 2003 intersected Main Lode style mineralisation south of this level, with two drill intercepts demonstrating economic thickness and grades of 2.2 m @ 20 g/t Au and 4.0 m @ 7.7 g/t Au. No further work was completed by Barrick after the completion of these holes.

### Bullant East Lode

The area that has been focused on since USN moved on Bullant has been the Bullant East Lode. The goal here was to justify expansion to the east of the main mine complex as this is the most accessible and thus inexpensive direction in which to push out mining. The close-up of the Bullant mine below shows the previous drillhole that had given substantial reason to believe that the area between that hole and the mine could be a source of fruitful mining.



### Wattlebird/Bowerbird

Two main lodes can be traced from Bullant through to the northern limits of Bowerbird (Main Lode & East Lode), separated by up to 20m of waste, but typically close together 5m apart. All lodes are contained in the Bent Tree basalt, within shear zones and quartz being a predominant host. There are many intersections throughout this area of extreme interest, and were not pursued by Barrick due to the discontinuous and poddy nature of the lodes.

### Bullant - Development Plan

The Bullant mine was reopened in October 2010. In the eleven months since its closure by Barrick approximately 125 vertical metres of workings were flooded with water. Thus far the initial work to recommission the mine has been completed for the upper levels of the mine, including the installation of the dewatering pumping system and the associated electrics. It is expected that there will be a further three to four months of dewatering and rehabilitation associated with the lower portion of the mine's infrastructure.



Development work has commenced in the upper levels while the lower levels are still being dewatered and rehabilitated. There is over 160,000 tonnes of current mining inventory in the upper levels of the mine and it is production from these areas that will provide the base load for the project for the first six months. Using the production/grades in the period immediately prior to the mine's closing as a guide it might be reasonable to expect around 30,000 ozs of gold production from that much inventory. The production from the lower levels will commence as soon as the rehabilitation is complete but the current inventory provides a robust buffer against any delays in the lower levels due to deterioration of ground support or infrastructure. The condition of the infrastructure is the biggest unknown of the project but the company believes that this does not pose a production risk due to the potential of the upper levels.

The company is clearly going full steam ahead towards production. To this end the main priorities are:

- Setting up a toll treating arrangement with a mill in the district (such as the Paddington mill of Norton Goldfields (NGF.ax).
- Investigate potential for early mining of narrow veins in upper levels.
- Extend decline by 50 metres, establish drives on three levels, commence stoping in six months.
- Initiate exploration review.
- Confirm mine potential at depth
- Thoroughly investigate surface potential

In mid-January it announced the purchase of a 500,000 tpa ball mill, associated drives and pumps which was hitherto located at a mine north of Leonora in Western Australia. This is shown below.



This ball mill is a key component in the company's strategy to have a 500,000 tpa ore processing capacity at the Bullant Mine. This should reduce significantly the total cost of the new milling facility at Bullant and greatly reduce the timeline to commissioning.

Removal and relocation of the ball mill to the Bullant mine site was completed in March. Now the company has begun flow sheet designs based around the specifications of the 500,000 tpa mill. Preliminary investigations to determine the site for the mill location at Bullant have commenced. To this end a program of sterilisation drilling is being carried out.

Current indications are that the 500,000 tpa processing facility could be built and commissioned by the end of 2011 taking account of the availability of suitably experienced locally based contractors. Financing options are being explored for the purchase of the additional items to supplement the ball mill as well as the construction and commissioning.

While the mill remains a work in progress, previous owners of the Bullant mine had identified the open pit potential of the Wattlebird, Bullant South and Rocky Dam prospects that we mentioned earlier on. The company feels that, at current gold prices, it should be mining these pits before the mill is operational.

#### **Tolling being negotiated with several different parties**

Expediting the mine reopening on the cheap is the prime goal of management at the moment. Clearly the mine has gone from being part of the mammoth Barrick structure in the Kalgoorlie region with lots of share services and facilities to being a standalone mine. This however can present an opportunity as well as a challenge if the company can find a cheaper or nearer (or both) means of dealing with its ore processing requirements. In a recent meeting with Norton Goldfields (ASX:NGF) we were told that they were in talks with USN over tolling the Bullant output. USN's management informed us that there is "...no story as yet with Norton other than they are one of many groups who we have approached to find a best price for toll treating of USN dirt until our own mill is built".

Norton's 3.3mn tpa Paddington Mill, which is based on conventional carbon-in-pulp technology, is large, efficient, low cost and is around 20 kilometres due East of the Bullant mine.

The plant comprises a cone crusher, a ball and SAG mill grinding circuit, gravity recovery and cyanide leaching. Under Norton' management the throughput is smelted into gold doré bars with ~81% gold. The bars are sent to the mint for refining into gold bullion. While it is not certain that Bullant will utilize this facility it seems like the easiest option and mutually convenient.

#### **Mining costs and method**

On the issue of historical operating costs, the company advised us that Barrick did not publish such data but the company has been privy to some information which was left in the mine offices when USN purchased the mine that indicated that Barrick's costs were in the order of AUD\$550 per oz for 44,000 oz Au in the final year 2008/2009. It has to be noted though that Barrick used bulk-mining methods. USN's costs will be closer to AUD\$750-\$850 per oz Au as USN will be using more intensive mining

methods i.e. airleg operations. This does however increase head grades and reduce gross tonnages to be trucked milled and treated.

Airleg mining in Australia has been on the decline over recent decades. This has been partly due to tonnage productivity benefits of electric-hydraulic jumbos and longhole production drills and partly due to safety initiatives by State Mining Inspectorate Departments and larger mining companies. At many mines operated by mining majors (e.g. Barrick) there are no longer miners using airleg machines due to the fact that the use of them has been limited by self-regulation and the move to higher productivity and non-entry methods, particularly with the trend towards contract mining.

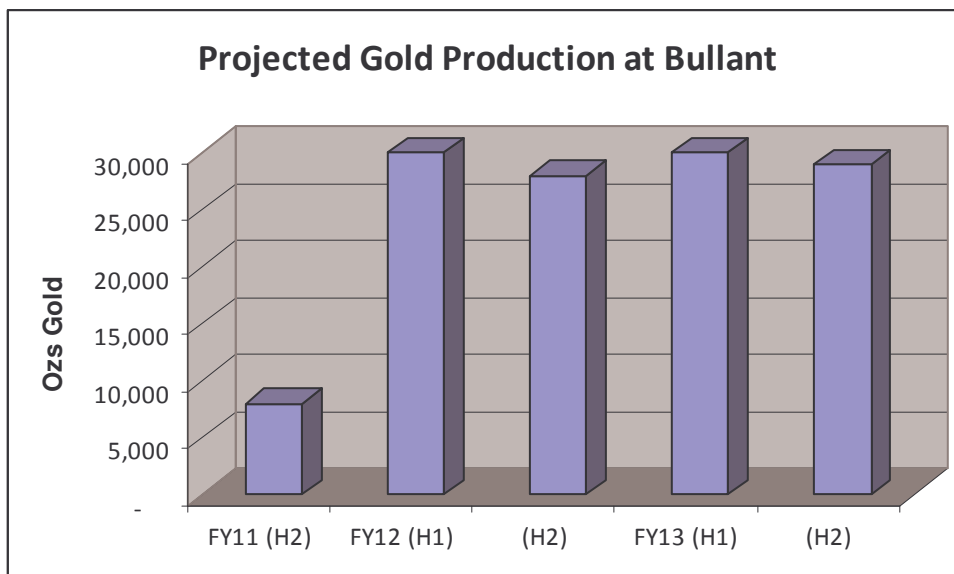
A result of this has been increased ore drive and stoping dimensions to suit equipment instead of orebody width. This in turn has led to increased mining costs per tonne of ore and inevitably some orebodies have become uneconomic due to such mechanisation. This may have been one of the factors influencing Barrick's decision at Bullant. In any case the USN approach is going to try and maximize extraction of ore from the resource it has rather than leaving crumbs on the table.

It is expected that the first ore will be mined in early May 2011.

### Earnings Outlook

Coming up with earnings estimates for this company is somewhat fraught because the fate of the nickel assets remains unclear while the mining plan for Kalgoorlie is still a work in process. Even as it is the initial plan with outside tolling might not necessarily be the scheme in operation two years out.

The table that follows takes what we feel is a realistic view of production over the next few years in light of the current known resource and the past history of the resource expanding through mining. This might be as good as it gets or could evolve to greater mine potential with further drilling on the various targets which we have previously mentioned.



Using this production scenario we have created an earnings model (shown on the next page) for just the Bullant operation. This model shows that profits are highest at the start as the most easily accessible ore is hauled out in the first six months. We show cash costs per ounce declining over the three years we modeled until the 2013 tail-off in production. However all this is predicated by the current slim resource. The companies ambition to have a 500,000 tpa mill is clearly a sign that they feel that the mine and its satellite deposits will give up much more valuable dirt over a longer time period. Thus the short-term target is to identify a resource of one million ounces by December 2011.

<b>Bullant Revenue Model</b>								
FY ending June (AUD mn)	FY13E			FY12E			FY11E	
Mining Revenue	61.07	30.02	31.05	62.73	28.98	33.75	9.72	9.72
Cost of Revenue, Total	46.59	23.49	23.10	44.40	21.00	23.40	6.48	6.48
<b>Gross Profit</b>	<b>14.48</b>	<b>6.53</b>	<b>7.95</b>	<b>18.33</b>	<b>7.98</b>	<b>10.35</b>	<b>3.24</b>	<b>3.24</b>
Selling/General/Admin. Expenses	2.00	1.00	1.00	2.00	1.00	1.00	0.60	0.60
Exploration	1.90	0.80	1.10	2.30	1.10	1.20	1.30	1.30
Depreciation/Amortization	6.00	3.00	3.00	6.00	3.00	3.00	1.00	1.00
Total Operating Expense	56.49	28.29	28.20	54.70	26.10	28.60	9.38	9.38
<b>Operating Income</b>	<b>4.58</b>	<b>1.73</b>	<b>2.85</b>	<b>8.03</b>	<b>2.88</b>	<b>5.15</b>	<b>0.34</b>	<b>0.34</b>
Diluted Weighted Average Shares	219.90	219.90	219.90	219.90	219.90	219.90	219.90	219.90
Diluted EPS	0.021	0.008	0.013	0.037	0.013	0.023	0.002	0.002
Gold price assumption (av. FY)	1,150	1,150	1,150	1,200	1,150	1,250	1,300	1,350
AUD/USD assumption	1:1.10	1:1.10	1:1.10	1:1.05	1:1.10	1:1.10	1:1	1:1.10
Production estimate	59,000	29,000	30,000	58,000	28,000	30,000	8,000	8,000

The onset of operations at the larger mill (after the short-term solution of having ore tolled by others) should reduce cash costs further and maybe by a larger factor than we are figuring upon. Even using these rather conservative estimates we see that the first full year of production could register EPS from the Bullant complex of 3.7 cents on a stock price that is diluted by the current issue and standing at around 17cts (pre-halt). Even at our most gloomy in FY13 the EPS is still better than 2 cts per share or a P/E of just over 8 times the current price.

A more bullish scenario would have the larger mill kicking in from mid-FY12 with rising production and throughput and lower cash costs which would result in a quantum improvement in the operating profits. Thus in a mediocre outcome or steady state production the company's earnings prospects are very sound and in a more upbeat scenario (and looking for one million ounces in resource is not a goal that is outlandish) the cash could cascade to the bottom line and fund the company to forge outwards to pick up other properties to fill up the mill's capacity.

## Nickel

We remain very positive on Nickel (as we are on Lead and Zinc). Nickel has a few world scale deposits coming into production (Goro and Ambartovy to state the obvious) while the Pb/Zn space has less in prospect. But all the same nickel is inextricably linked to global growth through the stainless steel nexus and thus looks firm at current prices in anything but a disastrous economic scenario. All the positive vibes on the Bullant project make USN's foundation projects appear dull but every metal gets its day in the sun eventually. We shall discuss here briefly the US asset of USN. The Canadian at Snowbird is clearly taking a backseat at the moment.



### Mid-Continent Project

USN's main prospect in the nickel space is its Mid-Continent Project located in southwestern Minnesota, USA. This consists of two target areas, Cottonwood and Renville West, totalling 17.8 km<sup>2</sup>, which are held by exploration agreements (in respect of 29 tenements) and mining leases (in respect of two tenements) with 31 private mineral and surface owners. The exploration target at Mid-Continent is magmatic Ni-Cu ± PGE sulphide deposits. The project area is positioned near the southern margin of the Superior Craton, which encompasses several famed nickel sulphide deposits along or near its margins in Canada (including Thompson, Raglan, Voisey's Bay). Recent nickel sulphide discoveries at Lakeview (Minnesota) and Eagle (Michigan) are located in the same general region.

The company will acquire all exploration data relating to the Mid-Continent Project, including all regional geophysical data, drill hole and analytical data acquired by BHP Billiton, and later Indago. In addition, exploration will benefit from 4,500 km<sup>2</sup> of high-quality airborne geophysical data to which the Company will have access pursuant to an existing commercial arrangement with BHP. It may acquire a further 30% interest by paying the vendors US\$2 million within 24 months. The vendors would retain a 2% NSR, half of which may be purchased at any time for US\$1 million.

The project lies within the Paleoproterozoic Yellow Medicine suture zone that joins two distinct Precambrian cratonic blocks, the Middle Archaean Morton Gneiss Block to the south and an unnamed block in the north comprised of the Montevideo Gneiss. Mafic and ultramafic intrusives along with mafic volcanic rocks are interpreted to cover a large part of the project area. The region is covered by glacial deposits (30m to >100m) comprised of tills and clays overlain by agricultural soil. The Cottonwood target is centred on the Cottonwood Intrusive, a large body of peridotite composition which is considered to be prospective for magmatic Ni-Cu ± PGE sulphide mineralisation. The intrusive does not

In February the company reported on the drill program at the Mid-Continent Project with total meters drilled to 22 December 2010 being 1,014 m, in five holes of the original seven-drill hole, 1,500m program. Drilling resumed on 4 January 2011 after the holiday break, with CW-10 in progress and at 265m down hole depth. To date drilling intersected the target ultramafic intrusion in two holes, CW-2 and CW-10. Samples from the ultramafic intrusion containing pyrrhotite were sent for assay.

The board of US Nickel has approved an expansion of the current drilling program.

## Management

As would be expected for a company originally rooted in nickel exploration the main executives come from that space.

**Alex Hewlett**, the Managing Director (CEO) and a director, is a geologist and a member of the Australian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. He is also a member of the Australian Institute of Company Directors and was until recently the chairman of Groote Resources (GOT.ax), which is a constituent of our Model Mining Portfolio. He was previously a geological consultant with CSA Global in their resource evaluation division. He has also held prior positions as a geologist with Niagara Mining Limited and Gindalbie Metals Limited.

**Christopher Daws**, an executive director, has a background in finance and economics having spent 10 years involved in Australian equities and has worked with Merrill Lynch for three years, ABN Amro for two years and CIBC Eyres Reed for five years. He is an Affiliate Member of the Securities Institute of Australia. He held the role of CEO for four years for ASX-listed Niagara Mining Limited (renamed Poseidon Nickel Limited) including as a Director from November 2006 to July 2007. He is currently a non-executive director of Spitfire Resources (SPI.ax).

**Jonathan Murray**, the Chairman and a director, is a Partner of Steinepreis Paganin, an independent law firm based in Perth, Western Australia. He specialises in equity capital raisings, all forms of acquisitions and divestments, governance and corporate compliance.

**James Croser**, a non-executive Director, is a mining engineer with broad experience in the resources sector, particularly underground mining in hard rock. He was instrumental in the construction of the Frog's Leg Gold Mine for La Mancha Resources and has held mine management positions for La Mancha Resources & Perilya (PEM.ax) as well as operational roles in some of Australia's largest underground contracting companies. He is currently consulting to the mining industry as Operations Manager of Rock Team Pty Ltd.

**Peter George**, a non-executive director, is a Mining Engineer with fifteen years of Australian and international experience in managerial, technical and consulting roles within the mining industry. He holds a Bachelor of Mining Engineering, a Graduate Certificate in Minerals Economics, is a holder of a WA First Class Mine Managers Certificate and is a member of the Australian Institute of Mining and Metallurgy. He held prior senior operational positions with the Swedish mining major, Boliden and since 2001 has been involved in progressing numerous projects through the feasibility study to construction process in a senior position for consulting firm, Rapallo Pty Ltd. He has most recently held the positions of Managing Director for Rapallo Pty Ltd and Director of Rock Team Pty Ltd.

## **Financing**

To assist with the funding of the expanded drilling program and for general working capital, the board announced in February the placement of 20mn shares to raise AUD\$3mn before costs. Then in recent days, the company announced a more comprehensive raising of AU\$10mn (before transaction costs) through the issue of 64,550,000 shares at \$0.155 per share. The company will also be issuing one free option for every two shares issued exercisable at \$0.25 within three years of the date of issue. The proceeds of this latest financing will get the mine into production.

## **Investment Risks**

The main considerations on this score are:

- That production costs prove resistant to further reduction
- A serious retreat in the gold (below \$1,000 per oz) would damage project economics at Bullant
- That the mineral deposit at Bullant proves to be not amenable to expansion
- That a spinout of the nickel assets fails to fire investors' imagination or has inadequate exploration results and languishes

## **Conclusion**

While we are enthusiastic about the evolving nickel district(s) in Minnesota it is probably too early for the wider audience of investors to grasp the emerging potential for the area. The universe of names to follow is small and shrinking with Polymet leading the pack followed by Duluth Metals (which is currently devouring the third player, Franconia Minerals). Thus US Nickel appearing on the scene and attempting to reorient the Australian investing public towards a nickel story in a relatively untried nickel province was a gallant crusade. The takeover of Franconia shows that small players will probably not be able to make it to production but that a tidy return can be made by preparing the ground and being taken out by a larger predator. This being the case, the most attractive outcome would be for the nickel prospects to find themselves a home in either a US- or Canadian- listed vehicle.

This scenario liberates the Bullant project to represent a standalone gold vehicle, which is something the local and international markets are more cognizant with. Australian gold mines quite frequently require a change of thinking for international investors for the average cash cost per ounce is usually much higher than that seen in Latin American or even Nevada mines. The secret in Australia is that mining companies get to production faster, can extract gold from deposits that elsewhere would be put in the "too hard" basket and are extremely imaginative at cost-saving solutions on capex (which thus feeds

back into getting into production faster). US Nickel's newest property shows all those elements at work with an experienced team.

US Nickel until recently represented an investment in a tried team in an untried province, now it represents a tried team operating on their home ground. The stock looks inexpensive even at prices down to \$1,100 per oz Au on the projections we have ventured in this research note, thus we are categorizing US Nickel with a **Long** rating at this time with a 12-month target price of AUD\$0.45.





## Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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