

Pure Nickel (TSX: NIC)
 Initiating Coverage

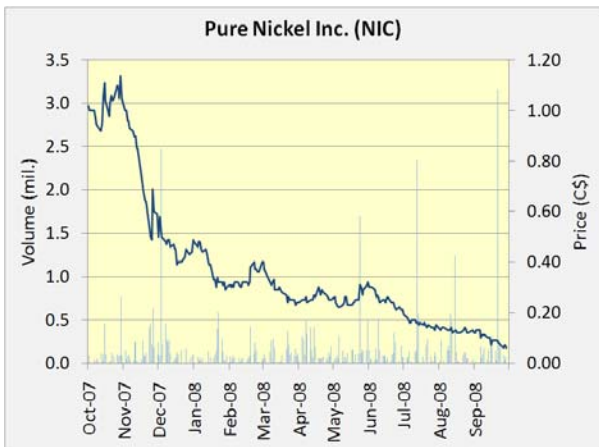
Rating: Buy
 Target: \$0.39

Key Data (C\$)	
Industry:	Mining
Price:	\$0.075
52 Week Range:	\$1.16-\$0.05
Market Cap:	\$5.08 mil.
Shares Outs.:	67.77 mil.
Book Val./Share:	\$0.59
Price/Book:	0.13x
EV/Book value:	N.A
Net Gearing:	0.0%
2007 EPS:	(\$0.17)
2008 EPS est.:	(\$0.06)

Initiating Coverage on Pure Nickel Inc. with a Buy Rating and \$0.39 Target Price

Investment Summary

Pure Nickel Inc. (TSX: NIC) is a Canadian-based mineral exploration company that holds interests in a diverse collection of advanced nickel and PGE projects throughout Canada and Alaska. Since acquiring Xstrata's Canadian nickel exploration portfolio in July, 2007, NIC has subsequently become one of the largest North American nickel exploration firms. The company holds a premium portfolio of later stage exploration and development projects, with the most advanced being the William Lake Property based on preliminary drilling results to date. At current price levels, NIC shares are trading at a fraction of cash plus expected royalties per share, and at a significant discount to peers based on a relative valuation. We are therefore initiating coverage on Pure Nickel Inc. with a Buy rating and a target price of \$0.39.



Mining Exploration Assets

Pure Nickel Inc. (NIC) holds interests in a diverse portfolio of minerals that includes nickel, platinum, copper, gold, and silver, as well as the associated base and precious metals. All of NIC's projects are in different stages of the exploration process. At the end of August 31, 2008, the total book value of Pure Nickel's mining and exploration assets was approximately \$39.9 million. The company's management has proposed an estimated \$6 million will be committed to various ongoing exploration activities in FY08 (fiscal year ends November 30). The company's assets consist of prime portfolio properties, all of which are located in some of the best known geographical areas for commercial discovery. A geographical breakdown and overview of Pure Nickel's assets is detailed below:

Canada

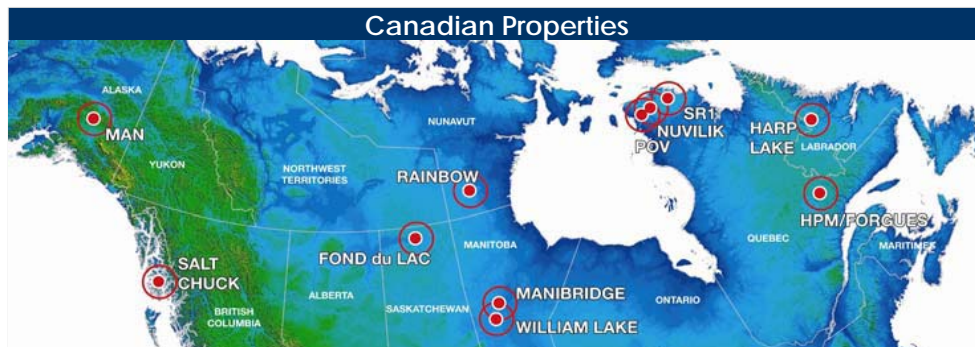
At the end of 3QFY08, the book value on NIC's exploration properties in Canada was reported at \$25.6 million. There are nine properties located in central and eastern Canada including claims in the Thompson Nickel Belt, which is known as one of the world's richest nickel belts.

William Lake

The William Lake Property is located in the central part of Canada's Manitoba province, approximately 50 kilometers north of the Grand Rapids community. The property lies within the Thompson Nickel Belt.

Company Description: Pure Nickel Inc., (NIC) is a Canadian based junior mining company which was incorporated on April, 1987, as Nevada Star Resource Corp. and later changed its name to Pure Nickel Inc. in March, 2007. The company focuses on the exploration and development of projects that contains nickel, platinum group elements (PGEs), copper, gold, silver and associated base and precious metals. Pure Nickel's primary properties are the William Lake Property, Fond du Lac Property, Salt Chuck Property, and the MAN Alaska Property. The company also owns rights to earn royalties up to \$10 million from a partnership with the Milford Utah Copper Property, which is expected to begin production in 2009.

William Lake is considered one of the principal properties that NIC acquired in the Xstrata Nickel property purchase in July, 2007. The property is 100% fully owned by NIC and entails 148 claims that cover 30,890 hectares in the southern portion of The Thompson Nickel Belt (TNB). As one of the richest areas in the world, the TNB is known to host numerous mines



and deposits. The William Lake claims were formerly owned by Xstrata (Falconbridge), who incurred an estimated \$30 million on the 200 holes drilled on the property. Historic drilling results on the William Lake Property have been outlined in a NI 43-101 technical report published in 2007, although no resource estimates have been made yet. The company has completed 7,525 meters of a surface drilling program on the property, incurring drilling costs of \$430 - \$450 per meter for hole depths up to 700 meters. Initial drilling results during 2007 and 2008 have yielded encouraging results including 25.37 m of 0.44% Ni (including 2.74 m of 1.68%), 171.8 m of 0.45 % Ni, and 7.38 m of 1.12% Ni. In addition, the winter drilling returned for the first time in the William Lake Trend mineralization comparable to the styles of mineralization and stratigraphic thickness typical to the Thompson Nickel Belt. Although operational costs on this property have proven to be expensive, investment returns in the area have been high as well. According to the reported results for Victory Nickel Inc. (one of NIC's peer firms), indicated resources found in the same area have consisted of 4.3 million tons of grade 0.88% nickel (approximately 83 million pounds in-situ Ni) and an additional inferred resource of 1 million tons of grade 0.839% nickel (approximately 19 million pound in-situ Ni). The positive results that Victory Nickel Inc. has obtained serves as an indicator to us of the potential for high grades of nickel and other resources at William Lake. The company spent approximately \$3.6 million this year and is committed to a drill program in 1QFY09 for the William Lake Project. At the end of August 31, 2008, NIC had a book value on the William Lake Property assets of \$20.4 million.

Manibridge Project

The Manibridge Property is located north of William Lake and is the site of the past producing Manibridge Nickel Mine. NIC has partnered with Crowflight Minerals to jointly explore the Manibridge property (Pure Nickel claims) and the land surrounding it (Crowflight claims). Under the agreement, both parties contributed land to the 50%-50% Joint Venture partnership and equally fund exploration. Historic drill results have reported grades of 2.25% nickel and 0.27% copper. Results from the 2008 drill program include 16.75 m grading 1.38% Ni, 5.45 m grading 1.18% Ni, and 6.3 m grading 1.37% Ni in holes MN08-01, 02, and 04, respectively. At the end of August 31, 2008, the book value of total mineral property assets in this area was \$437,550.

Fond du Lac Property

Pure Nickel's Fond du Lac Property is located in northern Saskatchewan (Canada) and comprises six contiguous claims totaling 30,798 hectares. The mineral resources that have historically been reported on this property are limited to the Axis Lake East Zone only and consist of 3,400,000 tons of 0.66% Ni and 0.60% Cu. (non NI 43-101 compliant). Drilling in 2006 resulted in nickel mineralization in 7 out of the 7 holes drilled including up to 1.86% nickel and 0.45% copper. At the end of August 31, 2008, the company reported the total book value of mineral assets on the property to be \$4.4 million.

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Other Projects

Property	Location	Claim Area (approx.)	Status
Forgues and Haut Plateau East	Quebec (180 km Northwest of Sept Isles)	748 hectares	A joint venture property with Manicouagan Minerals Inc., which can earn a 70% interest in 39 mining claims. Historic drilling results include 4.15 m at 2.34% nickel and 0.54% copper, and 5.95 m at 2.74% nickel and 0.86% copper. Drilling results from 2008 are pending.
Raglan Properties SRI, POV, Nuviik	Quebec	51,400 hectares	The properties are currently in the early exploration stage. Minergy LTD, a private South African company has been granted an option on POV and Nuviik whereby they have the right to earn up to a 70% interest. All three properties were subject of a CTEM survey this past summer.
Rainbow	Nunavut (380 km northwest of Churchill and 612 km north of Thompson)	Appr. 6,000 hectares	The Rainbow Property consists of a series of 8 contiguous claims. Prior drilling work by Falconbridge in 2004 has confirmed the presence of nickel mineralization near Rainbow Lake in the area referred to as the Main Zone. The property is currently in the early exploration stage.

Source: company reports

United States

At the end of 3QFY08, NIC's exploration properties in the United States had a book value of \$14.3 million.

Milford Utah Copper Property

Located in Beaver County, Utah, the Milford Utah Copper Property is a series of mineral claims and a new mill owned by Western Utah Copper Corporation, which is now part of Copper King Mining (OTCPK: CPRK). The company owns 2,830 hectares of land and Pure Nickel has been informed that the property is being readied for production. According to Copper King Mining, projected extraction over the next five years will be 230.2 million pounds of copper, 115,100 ounces of gold, and 11.5 million ounces of silver. NIC will receive 1% of the net proceeds from the first 10 million pounds of copper produced, 1.5% of the net proceeds on all copper produced thereafter, and 2% of net smelter proceeds on all other minerals produced. Pure Nickel will receive in total up to \$10 million in royalty cash (the royalty is subject to a 12% Net Profits Interest on copper production from certain claims held by a group of private investors, the sum of which will not exceed \$1.2 million). Although we do expect that Copper King Mining will go through normal growing pains during initial production, we believe that Pure Nickel will be able to recover its royalty payments within two years after production starts, which would serve to bolster NIC's cash position.

MAN Alaska Project

The MAN Project is considered by management as one of the company's more important properties with blue sky potential due to the very positive preliminary results and solid infrastructure in the area. The MAN Project is located in south-central Alaska approximately 400 km northeast of Anchorage and 265 km south-southeast of Fairbanks in an area that spans 77,000 hectares. The property is 100% fully owned by NIC and had a book value of \$10 million at the end of 3QFY08. The MAN property is divided into four separate areas: Alpha, Beta, Canwell Complexes, and East Rainy Complexes. Samples taken to date have yielded up to 15.4% nickel, up to 7.19% copper, and high grades of platinum group element (PGE). Approximately 50 drill holes have been completed on the property, the majority of which are located in the Alpha complex.

Salt Chuck Palladium-Copper Property

Pure Nickel owns a 100% interest in the Salt Chuck Property, which is located on the Prince of Wales Island in Alaska. The Salt Chuck Property is a historic production site for palladium with copper, gold, and silver mineral credits. The property is comprised of 143 unpatented federal mining claims that cover approximately 2,000 acres of prospective ground including the historic Salt Chuck mine on Prince of Wales Island, Alaska. Total book value of the mineral property assets at Salt Chuck was \$205,124 as of 3QFY08.

Industry Analysis

Nickel consumption is dominated by stainless steel, which accounts for 62% of the global consumption of primary nickel. This trend is likely to continue with robust stainless steel demand in the near future. Developing countries such as China and India will play a major role in the growth of the global nickel industry. According to the International Iron and Steel Institute, stainless steel production is forecasted to grow 11% to 12% in China in 2008. Although demand from developed countries such as the U.S., the U.K., and Germany has been impacted by an economic slowdown, the International Stainless Steel Forum (ISSF) forecasts 9%-10% growth in global stainless steel demand for both 2008 and 2009, driven mainly by developing countries such as China and India.

Nickel producers have recently been squeezed by high energy prices and the rising cost of sulfuric acid, a key component to extract nickel laterite ores. Sulfur prices have increased from an average of just more than \$100 a ton in 2007 to more than \$800 a ton in 2008. A slump in nickel prices of more than 30% this year, combined with rising costs, has forced several operations to shut down. Anglo-Swiss miner Xstrata PLC has said it will close its 30,000-metric-ton Falcondo nickel operation in the Dominican Republic for at least four months because of high oil prices and the sharp fall in metal prices. Russia's Industrial Metallurgical Holding has shut down 30% to 40% of its production capacity due to the decline in nickel prices which have made operations unprofitable. We believe that the ongoing restocking by the stainless steel industry should provide some support for nickel prices going forward and over the intermediate term.

During the past three years, merger and acquisition activity has been feverish in the metals industries, resulting in many senior Canadian producers being overshadowed by larger foreign buyers. We believe the probability of a junior mine being acquired increases significantly when the feasibility studies are concluded. The recent metals price environment often finds producers to be flush with cash but, in many cases, having limited internal growth opportunities. Faced with the prospect of escalating capital costs, permitting issues, and development delays, producers have become motivated to pay upfront for operating assets. We anticipate merger and acquisition activity will continue in the sector over the intermediate term, particularly in the relatively fractured mid-tier produce space.

Financial Review and Outlook

Pure Nickel has not generated any revenues to date but did report a \$7.7 million total net loss for FY07, higher than the \$0.1 million loss reported in FY06. Among the key reasons for the increase in losses were the higher levels of activity and operational development costs along with a \$2.6 million charge for impaired mineral properties during the period. The company remains highly liquid with a strong balance sheet as of 3QFY08 (August 31) that included cash of \$6.5 million and capitalized mineral properties of \$39.9 million. To focus on creating shareholder value, Pure Nickel will concentrate its exploration efforts on its premier projects, William Lake and MAN, work through partners on other projects, and continue to market its MAN Project to a select group of targeted potential partners. Management has allocated approximately \$8 million for ongoing exploration activities during FY08.

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As of August 31, 2008, Pure Nickel had 4.4 million stock options outstanding with exercise prices ranging from \$0.23 to \$1.55 and maturity periods between December, 2008, and 2011. The company also had approximately 20 million warrants outstanding with a weighted average exercise price of \$1.66 and expiry dates between 2008 and 2010.

Financial Review

Canadian \$	2006	2007	2008E	4Q07	4Q08E
Revenue	\$0	\$0	\$0	\$0	\$0
Operating Income	(103,441)	(4,946,798)	(3,605,145)	(1,061,731)	(2,081,985)
Net Income	(138,523)	(7,725,575)	(4,270,600)	(3,514,569)	(2,006,584)
EPS	(\$0.02)	(\$0.177)	(\$0.063)	(\$0.052)	(\$0.030)

Source: company reports and LOM estimates

Valuation, Rating, and Target

Pure Nickel's properties have not progressed far enough to ascertain their resource value. However, we have used a price (market capitalization) to mining assets (book value) ratio of comparable companies engaged in the exploration of base and precious metals. Our comparables include junior mining exploration companies with no production properties that are involved in nickel-platinum-copper-gold-silver and associated base and precious metal operations in North America. We applied the peer group average multiple of 0.66x to the book value of Pure Nickel's mineral assets to arrive at target price of \$0.39 a share. This valuation does not capture the upside potential of the company's project at this stage of exploration.

Also significant to the valuation of NIC shares but not captured by our relative valuation is that Pure Nickel had nearly \$6.5 million in cash (\$0.096 per share) as of August 31, 2008, and a royalty payment of up to \$10.0 million (\$0.15 per share) from the Milford Utah Copper Property, which is expected to begin production shortly. In comparison, the current stock price of NIC shares is \$0.075, meaning NIC shares are trading below the company's cash balance per share and at a large discount to the combined value of the company's cash balance and future royalties per share.

Peer Group Comparison and Valuation Analysis

Company	Symbol	Price	Shares Outs. (Mil.)	Market Cap. (Mil.)	Mineral Assets (Mil.)	Market Cap./Mineral Assets
Crowflight Mineral Inc.	CML	\$ 0.14	269.69	\$ 37.8	\$112.8	0.33x
Mustang Mineral Corp.	MUM	\$ 0.14	81.23	\$ 11.4	\$ 16.4	0.70x
Victory Nickel inc	NI	\$ 0.11	194.97	\$ 21.5	\$ 21.0	1.02x
Canadian Arrow Mines Ltd.	CRO	\$ 0.13	68.94	\$ 9.0	\$ 14.7	0.61x
Hard Creek Nickel Corp.	HNC	\$ 0.24	60.37	\$ 14.5	\$ 22.6	0.64x
<i>Average</i>						<i>0.66x</i>
Pure Nickel Inc.	NIC	\$ 0.075	67.77	\$ 5.08	\$ 39.9	0.13x

Data as of October 7, 2008

Conclusion

We believe the Company's highly desirable and well-located properties coupled with management's international field experience will result in a significant advancement of the projects. In addition, positive drill results at the William Lake Property could provide significant upside for the company. Our target price of \$0.39 does not fully capture the potential if NIC is able to prove resources at Thompson Nickel Belt and other regions. We believe that this is an excellent opportunity for risk-oriented investors looking for exposure to diversified, early-stage mineral exploration companies.

Management

David McPherson – President, CEO, and Director: Mr. McPherson was appointed president and CEO of Pure Nickel in December, 2007. He has more than 25 years of experience in the financial services industry where he spent most of this time with Canadian Imperial Bank of Commerce. He has served on a number of community based economic development groups including the Niagara Growth Fund, a regional venture capital fund based in Niagara, Canada. From 2001 to 2006, Mr. McPherson was a vice president with First Ontario Credit Union where he worked in strategy development, product, and marketing groups.

Jeffrey D. Sherman – Chief Financial Officer: Mr. Sherman was appointed CFO in February, 2008. Mr. Sherman is a Chartered Accountant and holds an MBA. Prior to joining Pure Nickel, Mr. Sherman's work experience includes positions as vice president and CFO of Visible Genetics Inc. and VisualSonics Inc. From 2005 to the present Mr. Sherman has also been president of Anagram Services, a consulting company.

Dr. Dale Hull – Chief Operations Consultant: Prior to joining Pure Nickel, Mr. Hull was Director of Economic Policy, Mineral Policy Sector of Natural Resources Canada (Ottawa). Mr. Hull was also the founding president and CEO of Great Mining & Exploration Inc., an exploration stage mining company with interests in a Ni-Cu-PGE projection in Victoria Island, Nunavut.

Philip Mudry – Chief Exploration Consultant: Mr. Mudry is a professional geologist having over 30 years of experience in mineral exploration and resource development. Prior to joining Pure Nickel, Mr. Mudry held the position of president and director of Tranqueray Resource Ltd., and was also vice president of exploration for Comaplex Mineral Corp., where he led the teams to the discovery of two gold deposits in the Nunavut Territory. More recently Mr. Mudry led the exploration team for Endako Mines of Thompson Creek Mining to explore for additional reserves to extend the life of the mine.

Larry Hulbert – Chief Consulting Geologist: From 1984 until joining Pure Nickel in April, 2007, Dr. Hulbert worked for the Geological Survey of Canada serving most recently as Senior Research Scientist. Dr. Hulbert holds a D.Sc. from the University of Pretoria, South Africa, and has been registered as a Professional Geoscientist since 2003 and a qualified person for the purpose of National Instrument 43-101.

Risks

The company appearing in this report is at a junior stage and consequently any investment in the company's securities should be considered highly speculative. This analysis should be considered by sophisticated investors only, in conjunction with the advice of a qualified investment professional.

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