

Nuclear Renaissance Damaged in Short Term

Outcome Remains Uncertain

The massive 8.9 magnitude Japanese earthquake and subsequent tsunami has affected several nuclear sites in Japan knocking out backup power used for cooling the reactor core. All affected reactors have been shutdown, however, it will take some time (at least a week) to cool the core and the situation remains serious and could take at least a week to insure that the reactors are fully under control. The uncertainty surrounding the outcome has impacted uranium stocks significant with an average drop of 31% over the past two days.

15 March 2011

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The main area of concern is the Fukushima reactors site where there are a total of six units. Units 1-3 were running and were immediately shut-down following the earthquake with their cooling system running on backup generators until the Tsunami hit and wiped out the back-up diesel generators. Without power for the cooling system the authorities had no choice but to use seawater and boric acid to attempt to cool the reactors. In addition, there have been explosions at units 1 and 3 and unit 2's suppression chamber appears to be damaged. Authorities are continuing to bring the situation under control. At present the disaster is listed as a level 4 incident. Fukushima is the third worst nuclear incident behind Three Mile Island (level 5) and Chernobyl (level 7) with a reactor meltdown.

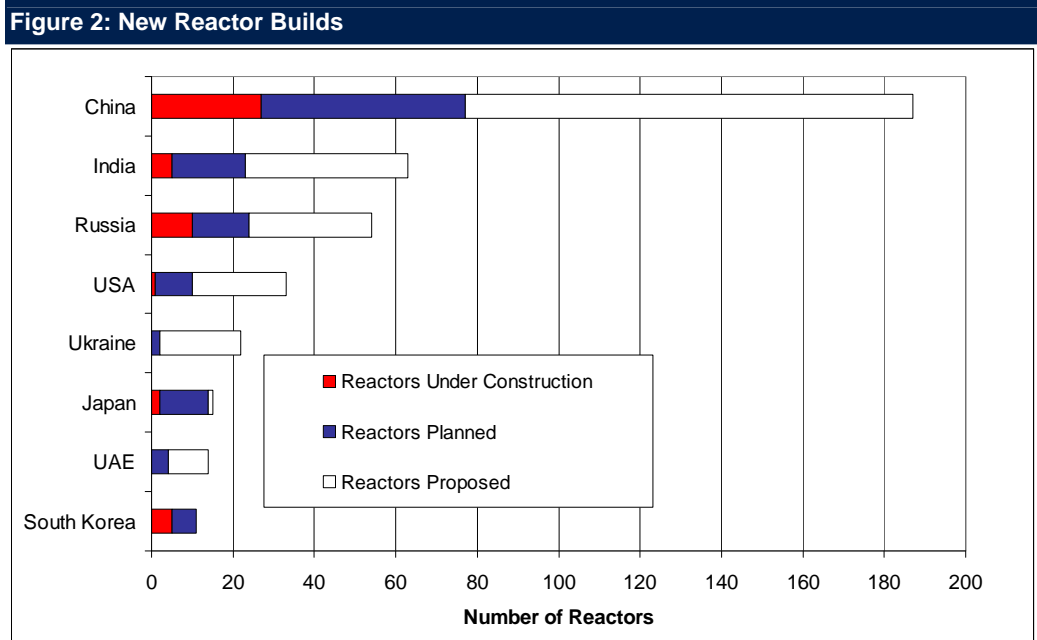
- Uranium Stocks Down by 31%; Uranium Price Down 12% Expect Volatility to Continue:** Uranium stocks throughout the world have been pummelled with stocks on average down by 31% (Figure 1). Large Cap names such as PDN, EXT, MRU are holding up better than the uranium juniors who have been sold off significantly. We discuss this further on page 3.
- Uncertainty Remains but Nuclear Renaissance to Continue Longer Term:** With the majority of new reactor builds coming from China, India, Russia and US (Figure 2) we believe that the nuclear renaissance will remain intact. The need for energy by these nations is certain. Ultimately the Japanese reactor incident could force a rethink on building further reactors in Japan especially in earthquake prone areas. In addition this may provide an opportunity to add additional safety measures to reactors.
- Uranium Prices to Remain Volatile:** In the short term, we expect uranium prices to remain volatile while the Japanese situation is uncertain. However, we believe the prices will need to remain in the US\$50-60/lb range to encourage new supply needed for the new reactor builds. (Spot price of uranium \$59.83/lb)

Figure 1: Uranium Stock Performance Since Japanese Earthquake on 11 March

		Market Cap	11/03/2011	15/03/2011*	% Movt			Market Cap	11/03/2011	15/03/2011*	% Movt
CCO.TSX	Cameco	16541.4	36.32	31.7	-13%	TOE	Toro	96.5	0.13	0.081	-38%
UUU.TSX	Uranium One	5690.5	5.96	4.31	-28%	MTN	Marathon Minerals	94.4	0.495	0.36	-27%
PDN	Paladin	3998.6	4.73	3.26	-31%	ACB	Acap	94.0	0.62	0.305	-51%
EXT	Extract	2386.8	10.63	8	-25%	EME	Energy Metals	89.2	0.705	0.58	-18%
ERA	ERA Ex Jabiluka	1955.1	9.4	7.07	-25%	MHC	Manhattan Corp	79.9	1.05	0.76	-28%
DML.TSX	Denison	1205.9	3.19	2.48	-22%	UNX	Uranex	72.9	0.5	0.31	-38%
MRU	Mantra	977.3	7.84	7.1	-9%	WCU	White Canyon	57.7	0.225	0.175	-22%
SMM	Summit	660.5	3.55	3.01	-15%	USA	UraniumSA	57.0	0.48	0.285	-41%
GGG	Greenland Minerals	407.4	1.135	0.845	-26%	EVE	Energy Ventures	54.1	0.19	0.125	-34%
PEN	Peninsula	251.2	0.12	0.059	-51%	SHE	Stonehenge	48.3	0.165	0.12	-27%
DYL	Deep Yellow	242.0	0.275	0.165	-40%	AEE	Aura	44.9	0.42	0.255	-39%
FSY.TSX	Forsys	206.7	2.6	2.05	-21%	BLR	Black Range	36.9	0.068	0.034	-50%
MGA.TSX	Mega Uranium	187.0	0.76	0.55	-28%	MEY	Marenica	33.4	0.08	0.05	-38%
BKY	Berkley	181.9	1.425	0.83	-42%	PNN	Pepinnini	14.9	0.205	0.14	-32%
AGS	Alliance	136.5	0.36	0.3	-17%	EMX	Energia	13.9	0.255	0.17	-33%
BMN	Bannerman	115.2	0.69	0.375	-46%	CUY	Curnamona	11.9	0.19	0.145	-24%
Average					-27%						-34%
Total											-31%

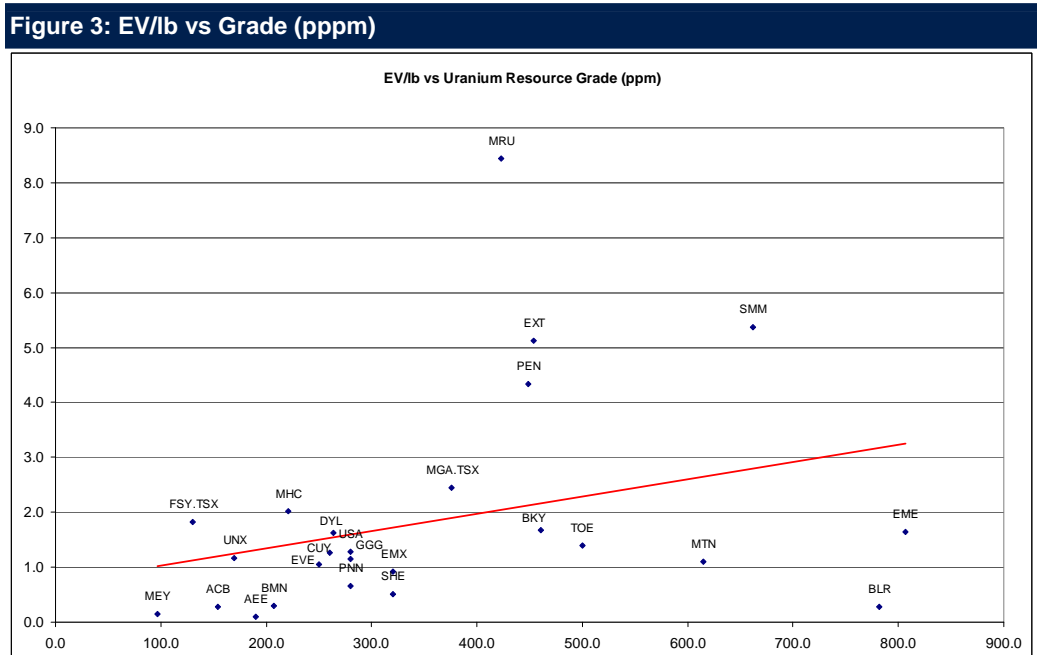
Source: Company Reports

In Figure 2, we provide a graphic of nuclear reactor growth plans. Japan ranks as number 6 with an additional 12 reactors proposed; it currently has 55 reactors (the third largest by number) which supplies about 1/3 of Japan's electricity needs. Following the earthquake and subsequent tsunami, 11 of Japan's 55 nuclear power stations are offline. This is some 13,400MW shut down and equates to roughly 8% of the country's total power output. Therefore it will need to examine alternative methods of electricity generation. The nuclear renaissance is being driven by China, India and Russia and we believe these plans will continue.



Source: Company Reports

Figure 3, shows EV/lb of uranium in resource vs Grade (ppm). The average EV/lb has decreased from \$3/lb to around \$1.80/lb since the Japanese earthquake.



Source: Company Reports

Quality Uranium Stocks

Below we provide a list of uranium stocks which should react positively once the situation in Japan is under control. Most of the mid-cap uranium's are fairly well cashed up for the short to medium term. Uranium stocks with lower cash positions: WCU-A; EMX-A; EVE-A; MHC-A.

Producers/Developers

Extract (EXT-A; Mkt Cap: \$2.3b)

- 5th largest deposit in world
- Chinese have possible bid on Kalahari EXT's largest shareholder
- Well cashed up; just raised \$60m

Paladin (PDN-A; Mkt Cap: \$4b)

- In production; two mines Namibia/Malawi
- Cashflow
- Largest tradable stock on ASX

Mantra (MRU-A; Mkt Cap: \$977m)

- Quality near surface uranium project in Tanzania
- ARMZ Cash Bid of \$8/sh
- Expected to close in May

Explorers

Deep Yellow (DYL-A; \$242m)

- Namibia; New Management
- \$16.8m in cash
- PDN owns 20%
- Good Assets +400ppm deposit

Uranex (UNX-A; Mkt Cap: \$72.9m)

- Next to Mantra located in Tanzania
- Positive results +1000ppm
- Cash \$5mn

Stonehenge (SHE-A; Mkt Cap: \$48.3m)

- South Korea; cheap pounds 69mlb
- Main concern will be metallurgy and removing the Vanadium
- \$4.6m in cash
- Travelling to site in March

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