URANIUM SECTOR UPDATE

INDUSTRY REPORT

PATERSONS THE AUSTRALIAN STOCKBROKER

Fukushima Fallout to Remain in Short/Medium Term

Longer Term Uranium Outlook Positive

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We believe the Japanese Fukushima nuclear reactor disaster, that followed the 8.9 magnitude earthquake and subsequent tsunami, has the potential to have a neutral to negative impact on the uranium market in the short to medium term. The negative sentiment generated by the disaster will surely have an impact on permitting of new reactors especially in the west and will definitely force a review of existing/new reactors to prevent any further disasters (US, Japan, France have largest reactor fleets). However, longer term developing nations (China, India, Russia) and are unlikely to change their nuclear reactor build plans over and this should be positive for uranium.

- **Equities: Strong Downward Reaction to Fukushima Accident:** The Patersons Uranium Index (Figure 3) fell by 29% following the Fukushima incident on 13 March 2011 reaching a low on 17 March. The index has since rebounded around 12%. The uranium equities had already begun to weaken prior to the Japanese earthquake and the market did appear overvalued. We had downgraded Extract to HOLD from BUY several weeks prior. In comparison spot pricing has held up relatively well considering how the equities faired.

- **Uranium Pricing to Remain in US$50-60/lb range:** We believe spot prices will trade in the US$50-60/lb range in the short to medium term obviously dependent on the outcome of the Fukushima nuclear disaster which continues to unfold. Our current spot price deck is: 2011 $50/lb; 2012 $60/lb and 2013 and LT $65/lb. This is consistent with our view that prices will need to allow additional uranium supply to be brought into production. The uranium spot price was last quoted at US$59.04/lb 19% down from its higher of US$72.50/lb in February.

- **Potential Upside of 4-25% in Uranium Equities over Longer Term**: We calculate the correlation coefficient of 0.9 between the spot uranium price and our PSL index. Therefore based on our analysis, assuming that the Fukushima reactors can be brought under control, there appears to be potential for the uranium equities to gain 4% at US$50/lb and 25% at US$60/lb. However, we believe in the short to medium term the equities will likely trade at a discount until Fukushima reactors are confirmed to be under control.

- **Adjusting our Uranium Price Targets**: Uranium producers and quality developers generally trade at a premium to the NAV due to the scarcity of investible uranium stocks. However, we believe this premium has been eroded due to a general negative sentiment towards nuclear energy. In Figure 1, we highlight target changes to our uranium stocks under coverage. The main adjustment is to our NAV multiple.

Figure 1: Uranium Coverage Target Price Changes

Stock	Ticker	Stock Price	Rating	NAV (1.0x)	NAV Multiple (old)	Old Target	NAV Multiple (new)	New Target	Return to New Target
Paladin Energy	PDN	3.59	HOLD	3.08	1.5	4.68	**1.2**	**3.70**	**3%**
Extract Resources	EXT	7.85	HOLD	8.35	1.25	10.62	**1**	**8.35**	**6%**
Mantra Resources	MRU	6.66	HOLD	5.01	1.5	8.50	**1.2**	**6.01**	**-10%**
Bannerman Resources	BMN	0.41	SELL	0.36	1	0.36	**0.8**	**0.29**	**-29%**

Source: PSL Estimates

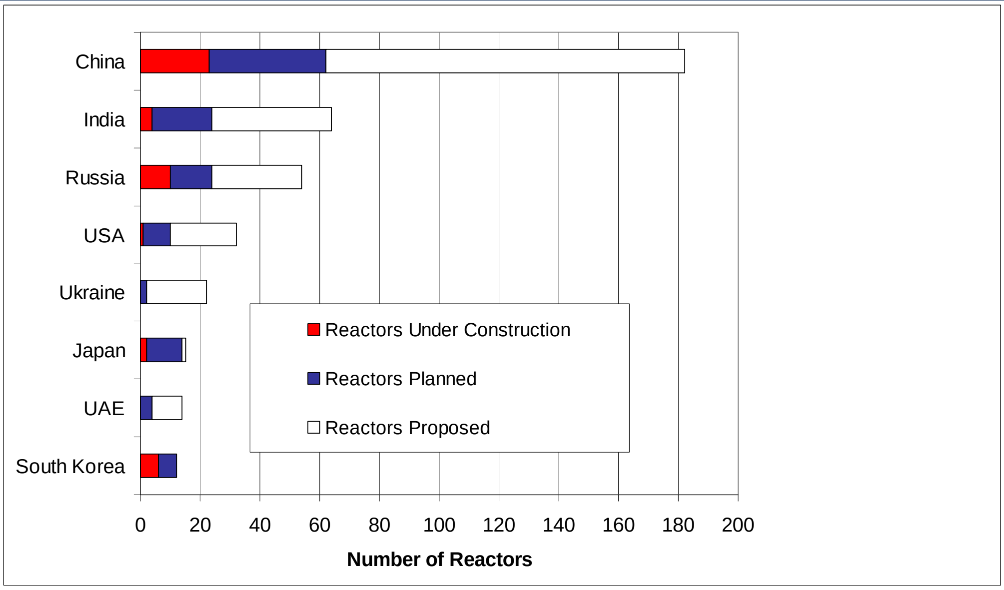
FUKUSHIMA FALLOUT TO DENT NUCLEAR RENAISSIANCE IN THE SHORT TO MEDIUM TERM; LONGER TERM OUTLOOK REMAINS POSITIVE

Strategy: Short to Medium Term Outlook for Uranium Neutral to Negative Longer Term Outlook Remains Positive. We believe the Japanese Fukushima nuclear reactor disaster, that followed the 8.9 magnitude earthquake and subsequent tsunami, has the potential to have a neutral to negative impact on the uranium market in the short to medium term. The negative sentiment generated by the disaster will surely have an impact on permitting of new reactors especially in the west and will definitely force a review of existing/new reactors to prevent any further disasters (US, Japan, France have largest reactor fleets).

Globally, there have been a limited number of reactors built over the past 30 years mainly as a result of negative sentiment from the Three Mile Island and Chernobyl incidents as well the high capital cost of constructing new reactors. This also means that most reactors in the world are ageing and many have had their useful life extended from 40 years to 60 years to continue to provide electricity. These reactors are based on older technology and do not incorporate all the safety measures incorporated into new reactors. Therefore, an extensive review by the industry is likely in the short to medium term to prevent further problems.

Developing Nations Key to Long Term Nuclear Renaissance: Over the longer term reactor build plans in the developing nations should remain virtually unchanged as these are needed for low carbon emission base load power. Therefore this is positive for uranium over the longer term. In Figure 2, we highlight that the top 3 nations building reactors are developing nations (China, India, Russia). The Japanese disaster will likely force a review of new and existing reactors and the chosen location.

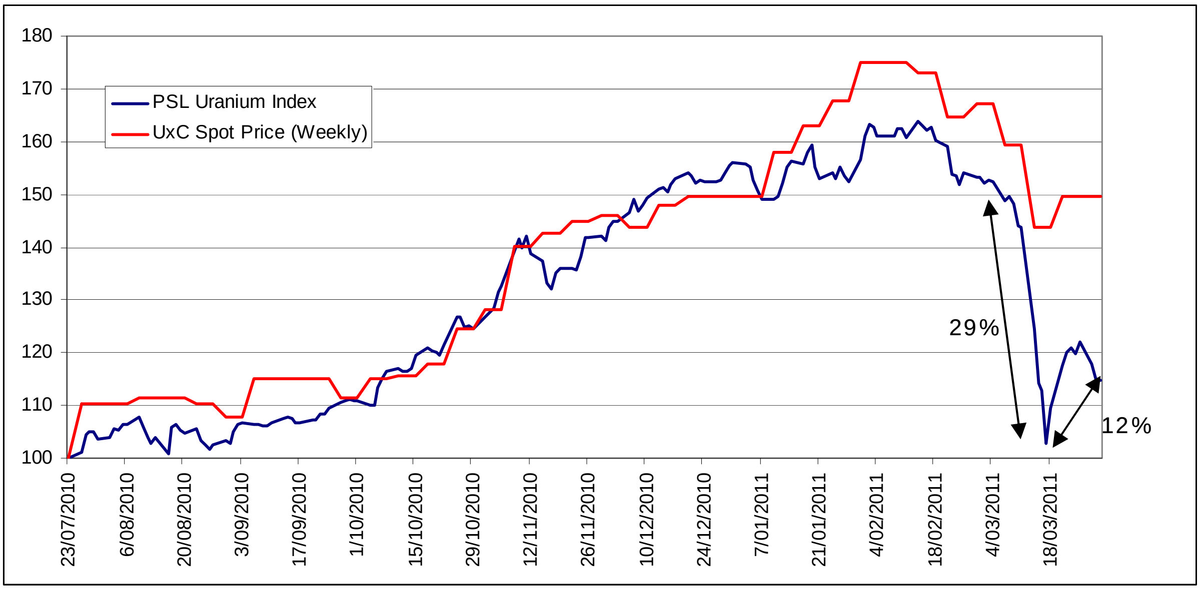
Figure 2: Nuclear Reactor Builds By Country



Source: World Nuclear Association Estimates

Equities: Strong Downward Reaction to Fukushima Accident: In Figure 3, we highlight Patersons Uranium Index which fell by 29% following the Fukushima incident on 13 March 2011 reaching a low on 17 March. The index has since rebounded around 12%. The uranium equities had already begun to weaken prior to the Japanese earthquake and the market did appear overvalued. We had downgraded Extract to HOLD from BUY several weeks prior. As shown in Figure 2, in comparison spot pricing has held up relatively well considering how the equities faired.

Figure 3: Uranium Equities Reaction to Fukushima vs Uranium Spot Price



Source: UxC (Historical) and PSL Estimates

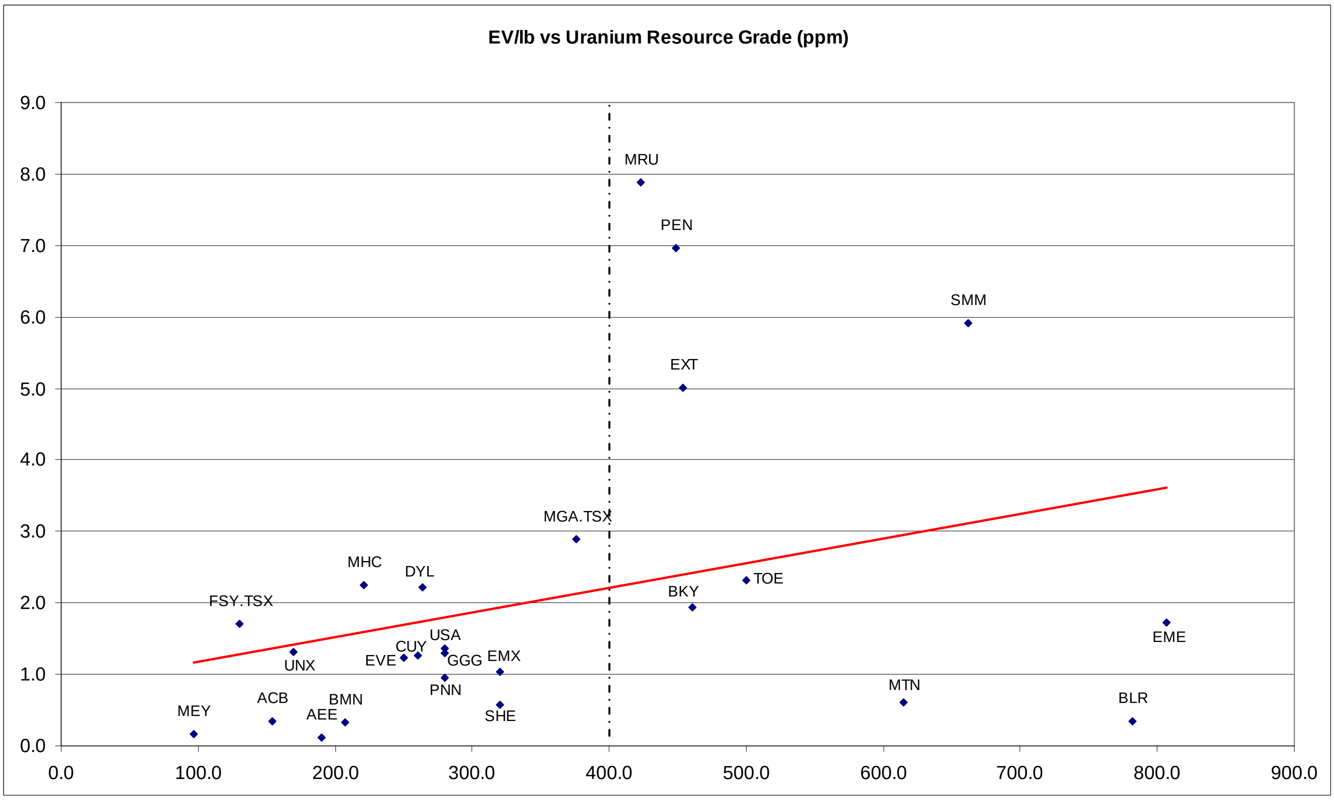
Uranium Pricing to Remain in US$50-60/lb range: We believe spot prices will trade in the US$50-60/lb range in the short to medium term obviously dependent on the outcome of the Fukushima nuclear disaster which continues to unfold. Our current spot price deck is: 2011 $50/lb; 2012 $60/lb and 2013 and LT $65/lb. This is consistent with our view that prices will need to allow additional uranium supply to be brought into production. This is to a) replace the Russian-US HEU deal which provides 24mlbpa to US and end in 2013 and b) provide additional material for the significant reactor build from developing nations especially China. It is possible for price spikes due to 1) additional Chinese buying in the spot market and 2) producers such as ERA who may need to purchase material on the spot market to satisfy contracts. The uranium spot price is last quoted at US$59.04/lb 19% down from its high of US$72.50/lb in February.

Potential Upside of 4-25% in Uranium Equities over Longer Term: We calculate the correlation coefficient of 0.9 between the spot uranium price and our PSL index. Therefore based on our analysis in Figure 2 and assuming that the Fukushima reactors can be brought under control there appears to be potential for the uranium equities to gain 4% at US$50/lb; 25% at US$60/lb. However, we believe in the short to medium term the equities will likely trade at a discount until Fukushima reactors are confirmed to be under control.

Limited Number of Investment Grade Companies: There are a small number of investible uranium producers these include: Cameco (CCO.TSX), Energy Resources Australia (ERA) Paladin (PDN), First Uranium (FIU.TSX) and Uranium One (UUU.TSX). These generally trade at a premium to the NAV due to the scarcity of investible uranium producers. However, this premium is likely to be somewhat eroded by the lower price of uranium due to a general negative sentiment towards nuclear energy.

Quality Stock Picks in the Uranium Space: In Figure 4, we highlight that the market generally rewards uranium equities with a resource grade of higher than 400ppm uranium. Examples of these included Mantra (MRU), Extract (EXT) and Summit (SMM). Others above 400ppm have had issues such as permitting, management and jurisdiction.

Figure 4: EV/lb Resource



Source: PSL Estimates

Below we provide a list of uranium stocks which should react positively once the situation in Japan is under control and positive sentiment returns to the market. Most of the mid-cap uranium stocks 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: $1.8b)

- 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: $2.8b)

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

Mantra (MRU-A; Mkt Cap: $799m)

- Quality near surface uranium project in Tanzania
- Revised ARMZ Cash Bid of just over $6.87/sh + Dividend
- Expected to close in May

Explorers

Deep Yellow (DYL-A; $216m)

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

Uranex (UNX-A; Mkt Cap: $56m)

- Next to Mantra located in Tanzania
- Positive results +1000ppm
- $5m in cash

Stonehenge (SHE-A; Mkt Cap:$38m)

- South Korea; cheap pounds 69mlb
- Main concern will be metallurgy. If the Vanadium can be commercially extracted then the uranium resource grade equivalent would increase beyond 400ppm.
- $4.6m in cash

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