

# Media Release

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11 December 2008

## Resource Capital Research – December Quarter 2008

### Equity research report on global uranium companies

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#### Key Points

##### Uranium Market:

- The spot uranium price is US\$55/lb and we expect it to trade in the range US\$50-65/lb into 1Q09.
- Recent mine production cutbacks, project deferments and anticipated increased utility uranium purchases 1Q09 are supporting the near term sector price outlook.
- The industry long term uranium price is US\$70/lb, down US\$10/lb (from US\$80/lb) 3 months ago.
- The fund implied uranium price, a key leading indicator, has recently traded from a high of US\$60/lb (8 Sept) to a low of US\$28/lb (23 Oct) and is currently US\$36-39/lb, suggesting forced fund sales remain a market risk.
- Planned and proposed new nuclear power reactors worldwide increased December '08 to 376 units, up from 318 August '08 (+58 units, +18%). The main increases are UAE (11), Italy (10), UK (6), Vietnam (6) and Poland (5).
- Interestingly, a significant number of new planned and proposed reactors announced since August are in advanced, non Asian economies such as Europe, confirming potential for growth in nuclear reactor demand in developed economies.

##### Uranium Companies:

- The market valuation of Australian companies with one or more uranium projects is down 23% over the past month and down 75% over the past 12 months.
- This compares with a selection of Canadian companies with one or more uranium projects, down 27% over the past month and down 77% over the past 12 months.
- Production and development stage companies continue to face significant challenges in financing and developing new projects, including cost pressures and potential delays variously relating to permitting, infrastructure development, commissioning and now credit and equity market weakness.
- Strategic interest in large scale projects continues in Namibia with a takeover offer for Forsys Metals (TSX:FSY) valued at US\$7.50/lb U<sub>3</sub>O<sub>8</sub> and Rio Tinto's (ASX:RIO) interest in Extract Resources (ASX:EXT) project.

Resource Capital Research ("RCR"), an equity research company which focuses on small and mid size resource companies, today launched its major quarterly research report covering 19 global uranium exploration and development companies.

The quarterly report typically reviews companies listed in Australia, Canada, USA and UK and active in established uranium districts globally, including Australia, Canada, USA, Argentina, Peru, Mongolia, Zambia, Tanzania and Namibia.

To access the free summary report or to purchase the complete 96 page comprehensive report, go to [www.rcresearch.com.au/reports](http://www.rcresearch.com.au/reports).

## **Equity market performance**

The market valuation of Australian companies with one or more uranium projects is down 23% over the past month, down 55% over the past 3 months, and down 75% over the past 12 months. This compares with Canadian companies with one or more uranium projects, down 27% over the past month, down 64% over the past 3 months, and down 77% over the past 12 months.

In the past 1 month the majors have had negative share price performance with the exception of ERA: Cameco (CCO) is down 12%, Denison Mines (DML) down 53%, Uranium One (UUU) down 17%, Energy Resources of Australia (ERA) up 8% and Paladin (PDN) down 16%.

Increased uranium purchases by utilities anticipated early in 2009, coupled with recent announcements of delayed, deferred or moth balled mining projects are providing support to the spot uranium price with potential for further modest increases into 1H09. Coupled with the rapid fall in the Australian dollar (currently US 0.64) and Canadian dollar (currently US 0.78) over the past several months and fall in the oil price, domestic producer margins in Australia and Canada are expected to be positively impacted compared to earlier in the year.

## **Uranium price outlook**

The uranium spot price is currently trading at US\$55/lb, flat compared with the beginning of the quarter. It fell to US\$45/lb briefly late October and early November with liquidity driven forced sales by uranium fund/s. The current spot price compares with the cycle high uranium price of US\$138/lb reached June '07.

The uranium price is expected to trade ~US\$50-65/lb over the next quarter. While sector fundamentals suggest a modest strengthening in the spot price is possible into 1H09, the Fund Implied Price (FIP), currently at US\$36/lb indicates market uncertainty and the susceptibility to further forced uranium fund sales a possibility.

In the past 3 months the FIP has traded from a high of US\$60/lb (8 Sept) to a low of US\$28/lb (23 Oct) with volatility reflecting the increased volatility and uncertainty in the broader financial markets.

The long term contract uranium price is US\$70/lb down from US\$95/lb where it held firm for nearly 12 months from May '07 to March '08. The long term and spot uranium prices are expected to converge over time.

Producers continue to face significant challenges in financing and developing new projects, including cost pressures and potential delays variously relating to permitting, infrastructure development, commissioning and now credit and equity market weakness. Recent examples include Uranium One (TSX:UUU) placing Dominion on care and maintenance and sulphuric acid problems in Kazakhstan expected to impact production through 1H09, postponement of the Midwest project in Canada (Areva/Denison/OURD), First Uranium (TSX:FIU) at Ezulwini, and Cameco (TSX:CCO).

## **World planned and proposed nuclear power reactors**

There are 376 new nuclear reactors planned or proposed globally as of Dec '08, up from 318 Aug '08 (+58 units, +18%). The main increases are UAE (11), Italy (10), UK (6), Vietnam (6) and Poland (5).

Interestingly, a significant number of new planned and proposed reactors announced since August are in advanced, non Asian economies such as Europe. While too early to call a trend, it reaffirms the potential for advanced market economies to be a significant driver of nuclear

reactor growth going forward, driven by energy security concerns and climate change commitments.

Currently, there are 439 nuclear power reactors in operation and 39 under construction. A total of 61 new reactors are expected to be commissioned by 2014.

#### Events of the past 3 months include:

- **Strategic investments - Paladin Energy** (ASX:PDN, TSX:PDN) made a scrip takeover offer for **Fusion Resources** (ASX:FSN, Dec '08) valuing the company at A\$17.8m – FSN's most advanced project is Valhalla North (QLD) – initial JORC resource 7mlbs U<sub>3</sub>O<sub>8</sub> (10 Dec '08), plus FSN has A\$14m in cash; Private company **George Forrest International Afrique SPRL** has made a takeover offer for **Forsys Metals Corp** (TSX:FSY) which holds the advanced Valencia alaskite project in Namibia. Cash offer of C\$7/share values FSY at US\$7.50/lb U<sub>3</sub>O<sub>8</sub>; **Rio Tinto** (ASX:RIO) stake in **Extract Resources** (ASX:EXT, extension to Rossing, Namibia) has risen to 15.2%; **Mitsui** agreed to purchase a 49% stake in 6 Australian uranium projects held by **Uranium One** (TSX:UUU) including Honeymoon. The total minimum cash commitment from Mitsui is ~A\$104m.
- **Uranium mining ban formally lifted in WA** (Nov '08) following the surprise Liberal win in the September election.
- **China** indicated (Nov '08) it may consider increasing its **nuclear generating capacity to 70GW by 2020**, up from 9GW (11 reactors) representing only 1.3% of total Chinese installed electricity generating capacity currently.

"Producers continue to face significant challenges in financing and developing new projects, including cost pressures and potential delays variously relating to permitting, infrastructure development, commissioning and now credit and equity market weakness. Recent mine production cutbacks, project deferments and anticipated increased utility uranium purchases 1Q09 are supporting the near term sector price outlook," said John Wilson, Managing Director of RCR.

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#### About Resource Capital Research

Resource Capital Research ("RCR") ([www.rcresearch.com.au](http://www.rcresearch.com.au)) was founded in 2004 and is based in Sydney. RCR provides investors with in-depth reports on current investment opportunities in the mining sector both in Australia and globally. The focus is on small and mid cap resource companies, within the gold and uranium sectors, ranging from exploration stage through development and production. John Wilson the principal of the firm and analyst has over ten years' experience analysing mining companies in Sydney and on Wall Street including for major investment banks.

#### For further information please contact:

**John Wilson,**  
**Analyst, Resource Capital Research,**  
**Phone: (+61- 2) 9252 9405,**  
**Email: [johnwilson@rcresearch.com.au](mailto:johnwilson@rcresearch.com.au)**

The report is available at [www.rcresearch.com.au](http://www.rcresearch.com.au). The next Uranium Sector Review will be published in the December Quarter, 2008.

Abbreviations: WNA – World Nuclear Association, lb – pound, Mlb pa – million pounds per annum, U<sub>3</sub>O<sub>8</sub> – uranium oxide.

# RCR December Quarter Featured Company Summary

## AUSTRALIA

Company	Code	Comment
<b>Aura Energy Limited</b>	<b>AEE</b>	<b>Advanced Exploration, Early Exploration</b> AEE's Storsjön Project (Alum Shale, Sweden) has a near-term resource target of >100mlbs U3O8 and a sale agreement with Sino King worth up to A\$460m. It is also advancing uranium projects in Australia, West Africa. CY09 exploration budget A\$5-8m, majority funded by partners.
<b>Berkeley Resources Limited</b>	<b>BKY</b>	<b>Feasibility Study</b> BKY continues to drill high-grade uranium mineralisation in Spain, e.g. 6.0m @ 0.123% U3O8 (3Q08, Zona 7). ENUSA deal (Jul '08) could give BKY access to a uranium mill at Salamanca and to State Reserve historic uranium resources - more details expected Dec '08.
<b>Black Range Minerals Limited</b>	<b>BLR</b>	<b>Advanced Exploration, Scoping</b> New drilling at Taylor Ranch (CO) has located high-grade uranium mineralisation in an 800m corridor between the Boyer and North Hansen deposits. Taylor Ranch zones aggregate 23.5mlbs U3O8 (grading 0.12%, 750ppm cutoff, Jul '08) - potential 2.2mlbspa underground production.
<b>Deep Yellow Limited</b>	<b>DYL</b>	<b>Advanced Exploration</b> DYL is focused on establishing a >100mlb U3O8 resource in Namibia by 2Q09, and drilling its encouraging Mt Isa U3O8 exploration projects. Looks undervalued with ~A\$50m cash, market cap ~US\$0.90/lb (basis: 100mlb resource) and neighbour PDN holding 19.3% strategic stake.
<b>Energy and Minerals Australia Limited</b>	<b>EMA</b>	<b>Resource Definition, Early Exploration</b> EMA has accelerated its development of the multi-faceted Mulga Rock Deposits and regional projects, supported by a lift of the ban on uranium mining in WA (Nov '08). High grade historic (non-JORC) resource of 102.5mlbs U3O8 grading 0.11% - JORC statement expected Dec '08.
<b>Energy Metals Limited</b>	<b>EME</b>	<b>Advanced Exploration</b> Bigrlyi (NT) extension and infill drilling underway (20,000m) - results to date include 5.3m @ 0.52% eU3O8 (from 77m) and 4.8m @ 0.47% eU3O8 (from 123m). Revised resource expected 1Q09. Accelerated drilling programs 2H08 at regional Ngalia (NT) and also at 3 WA projects.
<b>Energy Resources of Australia Ltd</b>	<b>ERA</b>	<b>Producer</b> ERA is seeking preliminary stakeholder approval for mine expansion and heap leach options at Ranger. Potential for significant expansion of reserves with exploration success and inclusion of low grade material. Positive impact to operating margin expected from dramatic fall in AUD.
<b>Extract Resources Limited</b>	<b>EXT</b>	<b>Early to advanced exploration</b> EXT's continued spectacular drilling results (120m @ 0.104% U3O8) and initial target ~200mlb uranium resource at its Rössing South discovery in Namibia, neighbour RIO's 15.2% stake and a valuation at a fraction of an analogous company takeover all suggest a very undervalued stock.
<b>Globe Uranium Limited</b>	<b>GBE</b>	<b>Early to advanced exploration</b> GBE has found additional high-grade, near-surface material at the uranium/ specialty-metal Kanyika Project (Malawi). JORC resource 56mt with 321mlbs Nb2O5 and 9mlbs U3O8, upgrade expected Feb'09 as part of PFS. Nb and Ta prices, demand remains high.
<b>Greenland Minerals and Energy Limited</b>	<b>GGG</b>	<b>Advanced exploration</b> GGG has the rights for up to 100% of the Kvanefjeld uranium and rare earths deposit in SW Greenland. JORC resource 223mlb U3O8 and 2.6mt REO with upside potential. Scoping study commencing 1Q09. Govt indicates support for by-product uranium production (Nov '08).
<b>Paladin Energy Ltd</b>	<b>PDN</b>	<b>Producer</b> Langer Heinrich producing at nameplate capacity - operating profit US\$13.3m 3Q08. Plant recoveries expected to improve to high 80's%. Stage II expansion on track for Dec '08 completion to 3.7mlbspa uranium. Kayelekera reserve expansion to 29mlbs U3O8 (+17%, Nov '08).
<b>PepinNini Minerals Limited</b>	<b>PNN</b>	<b>Advanced Exploration</b> PNN's Crocker Well uranium project (60% Sinosteel, 40% PNN) 14.9mlb resource is at BFS stage. With possible production late 2010, potential to double uranium resources and SA/Qld exploration programs for base metals, gold, uranium we expect a stock re-rating into 1H09.
<b>Scimitar Resources Limited</b>	<b>SIM</b>	<b>Advanced Exploration</b> SIM is focused on uranium exploration in Australia - holds 2.1m ha close to known deposits. New JV at prospective Marree (SA, Beverley 4 Mile type target) with Korean consortium, worth up to A\$6.2m. Pro-uranium policy in WA could boost development of Bennet Well (Yanrey).

## AUSTRALIA (cont.)

Company	Code	Comment
Toro Energy Limited	TOE	<b>Advanced Exploration/Resource Definition/PFS</b> TOE is aiming for 2012 production from two projects. Wiluna (WA) calcrete project (24mlb resource) - PFS completed, optimisation study underway, BFS to start mid 2009. Napperby (NT) target 13mlb resource, scoping study and JORC upgrade at end 1Q09.
Uranex NL	UNX	<b>Advanced Exploration</b> Aggregate resources of 29mlbs U3O8 at Bahi (15mlbs, Tanzania) and Thatcher Soak (14mlbs, WA) . PFS expected at Manyoni (Bahi) Dec '08. Bahi resource upgrade expected 1Q09 - potential >25mlbs U3O8 - 2010 production potential. Drilling prospective Mkuju region 4Q08 (15,000m).
West Australian Metals Ltd.	WME	<b>Mid Exploration</b> The Marenica uranium deposit (80% WME), Namibia, is adjacent to Areva's Trekkopje heap leach development project. Palaeochannel resource 34mlbs U3O8 - next resource statement expected 1Q09. Uraniferous alaskites confirmed 2Q08 - further drilling 4Q08.
White Canyon Uranium Limited	WCU	<b>Development</b> WCU is a near term uranium producer, with a mining application submitted for underground operations at Daneros (Utah) – high grade core >0.2% U3O8. Mining and toll treatment contracts under negotiation, potential mine production 1Q09. Combined resource target 10mlbs U3O8.

## CANADA

Company	Code	Comment
CanAlaska Uranium Ltd	CVV	<b>Advanced Exploration</b> CVV has a strategic land position (2.5m ac in the Athabasca Basin) with a pipeline of high value exploration targets and funding from key strategic investors. Cree East (Hanwha JV) confirmed substantial hydrothermal alteration - further drill results awaited.
Forsys Metals Corp	FSY	<b>Feasibility</b> The Valencia Project, Namibia, has a current resource of 62mlbs U3O8 with an upgrade expected 1Q09 and uranium production planned for 1H10. A current takeover offer by a private company (closing Feb '09) values FSY at C\$7/share (US\$7.50/lb U3O8 resource).