

GMP Securities

July 26, 2010

SUBJECT: Finally a bounce in the Uranium Price, U spot Price up 2\$ per lbs to US\$ 43.50/lb, Term Unchanged at US\$ 60/lbs

SUMMARY: Producers, Traders, and Utilities all entered the market last week to purchase a total of 800 M lbs U3O8. The main reasons for this increased demand in the short term are based on labour issues at converdynes conversion facility and the potential for ongoing labour disputes to affect supply of UF6 in the short term. On a larger Macro basis the signing of CCO's 23 MM lbs contract over 10 yrs with the Chinese could force other utilities into the market in the short term while they continue to sign strategic long term contracts with suppliers. Another potential driver in the next 6 mths could be TEPCO which has been trying to close a 20% equity stake in UUU for the last 18 mths. With ARMZ now having a 51% control block in UUU (expected closing lat 2010 to Q1-2011) we believe that the JUMI deal will not close and that could force Japanese utilities into the market, which could put further upward pressure on the spot price, which should drive uranium equities. To note, spot price drives investor sentiment, as such, any further increase, no matter how small, could have a significant impact on U equities.

DETAILS:

- After nine weeks of trading within a very narrow range, TradeTech's Uranium Spot Price Indicator jumped \$2.00 this week to \$43.50 per pound U3O8—nearly a five percent increase. This is the single largest increase in TradeTech's Spot Price Indicator since October 2009, when the price increased from \$47.50 to \$50.00 per pound U3O8. Utilities, intermediaries, and producers were all buyers this week. Recent equipment failures and an ongoing labor dispute have created some uncertainty for ConverDyn's Metropolis, Illinois conversion facility, where production is not running at full capacity. As a result, some buyers came to the market to acquire small amounts of inventory in order to forestall any impact from potential future disruptions in deliveries. In addition, the presence of producers on the buying side helped fuel the price rise. A total of seven transactions totaling over 800 thousand pounds U3O8 were concluded over the course of the week. In addition, new demand emerged this week with a US utility seeking offers for just over 100 thousand pounds U3O8 contained in UF6; offers were due today. Offers were due this week to two other utilities. A non-US utility received offers for 300 thousand pounds U3O8 or equivalent UF6 to be delivered in two lots of 200 thousand and 100 thousand pounds U3O8 equivalent, respectively. A US utility is evaluating offers in response to its Request for Quotations seeking 260 thousand pounds U3O8 or equivalent UF6 for delivery in 2010. Two other utilities are requesting offers for approximately 300 thousand pounds U3O8 equivalent. The term uranium market was quiet this week with no transactions or new demand reported. Offers were due July 20, to a US utility seeking 520 thousand pounds U3O8 or equivalent UF6 for delivery in 2011 and 2012, and up to 1.1 million pounds U3O8 equivalent per year in 2015 and beyond. The utility is now evaluating offers. One non-US utility is reviewing offers for annual deliveries of up to 1 million pounds U3O8 per year beginning in 2011. Another non-US utility is seeking long-term offers for delivery of over 2 million pounds U3O8 per year over a 10-year period. A number of other utilities are contemplating potential term purchases (As reported by Trade Teck on July 23, 2010)

OUR VIEW:

- **We could be setting up for a long awaited fall rally in the U price, and we are cautiously optimistic that this will be the case. With nation states now entering into long term contracts (China/Cameco) we believe there could be an increase in velocity with which long term contracts are signed. Strategic alliances and security of supply will be the main motivator to these alliances and we look for further contract signings by both India and China to continue to absorb production capacity. As well with ARMZ's recent moves in Kazakhstan (consolidating U production) western utilities will look to diversify their collective supply sources and have a more balanced portfolio of exposure outside of Kazakhstan. Thus African based U companies PDN (production now) and MRL (production H2-2013) could be looked at as a good way of playing the U space. As well as Berkley (BKY-AU) as it has near term EU based Spanish production expected to come online in H2-2013. To note both MRL and BKY have large compliant resource bases of approx 84 MM lbs each, with significant upside to add further lbs, as such each company could be a target for a larger Uranium company or a nation state looking to secure long term uranium resources.**
- **The safest way to play the U space is through UPC, currently is trading at 1.04 x NAV, as such with any sustained move in the spot price the multiple at which UPC trades would increase. As well, CCO which is the bell weather in the U space is currently trading at 16 X 2011 EPS, this is below its 15 yr average of 25-35 x EPS (to note CCO traded at approximately 16-18 x EPs in the trough of Q4/08.**

David Wargo

Email: dwargp@gmpsecurities.com

Office: (416) 943 6115

Krystal Nagel

Associate

Email: knagel@gmpsecurities.com

Office: (416) 941-0833