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Uranium Weekly Tracker

Spot Jumps to 70-week High on Buying, Weak Supply

Event

Monday's UxC spot price increased US\$2.75 to US\$52.00/lb and term price rose US\$2.00 to US\$62.00/lb U3O8. Friday's TradeTech spot price rose US\$4.00 to US\$52.50/lb, while LT price remained US\$62.00/lb.

Action

We are near-term positive on uranium and selective on uranium equities.

Analysis

Spot prices jumped US\$4/lb, the largest single-week price increase since Nov-2008, and surpassed the US\$52/lb level for the first time in 70 weeks (Jun-2009). The run, which has seen spot rise 27% in the past 13 weeks, has been underpinned by increased demand and shaky supply. TradeTech reports a variety of buyers are now active, including producers, utilities, traders, intermediaries and, notably, investors; recall, speculators played a key role in pushing spot prices to US\$138/lb in Jun-2007. On the supply side, several major producers reported lower than expected outputs or reduced guidance in recent weeks. Media reports state the Kazakh Ministry of Industry and Trade cut its 2010E production forecast by 2.3%, or ~1 Mlbs, to 45.7 Mlbs. The change is equivalent to only 0.7% of our 2010E global mine supply forecast; importantly however, we suspect the revision may reflect recognition of the high cost of incremental production (rather than altruistic discipline) and could signal a changing tide for top producer Kazakhstan, where production has grown 198% over the past four years. Elsewhere, lower than expected grades have stymied mine supply: ERA reported 3Q10 Ranger production of 2.0 Mlbs (-35% y/y) and reduced 2010E guidance 9-17% to 8.6 Mlbs (from 9.5-10.4 Mlbs); Rio Tinto's Rössing produced 2.0 Mlbs in 3Q10 (-17% y/y) and 3Q10 output at BHP's Olympic Dam was 2.2 Mlbs (-11% y/y), despite a record quarter of hoisting rates using the fully repaired Clark shaft. Paladin produced 1.36 Mlbs in F1Q11A (-20% vs. our 1.71 Mlbs forecast and -6% q/q), due to temporary issues at Langer Heinrich and Kayelekera. In total, we estimate these 1Q10 shortfalls represent a 1.9 Mlbs miss versus market expectations, or 1.4% of our 2010E mine supply estimate. ERA announced it would make purchases to help meet its 2010E sales commitments of 11 Mlbs, suggesting additional spot market demand may be coming and we anticipate Rio, BHP and PDN may also follow suit. We also note increased buying activity in the long-term market, particularly by U.S. utilities, is likely behind UxC's increased LT price (now in-line with TradeTech at US\$62/lb).

Valuation

Our top picks are DML, HAT, PDN and URE.

SECTOR SUMMARY

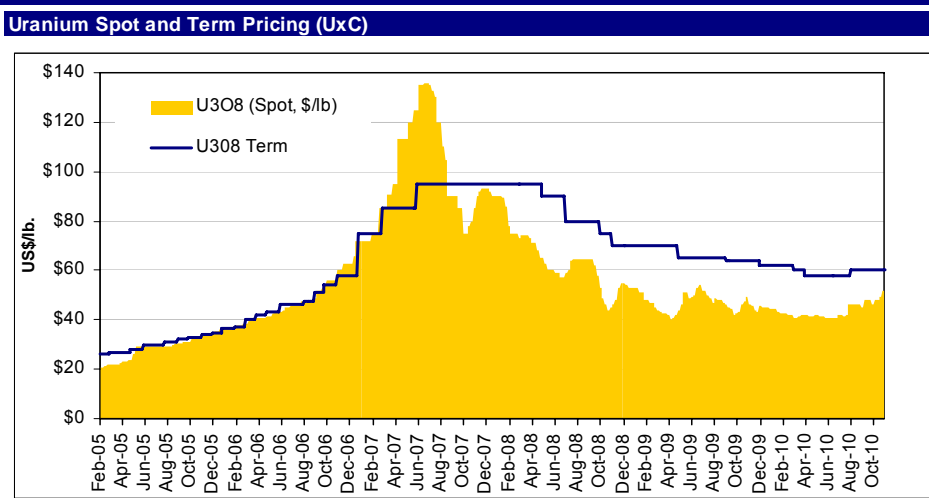
COMPANY			RATING
TICKER	CUR PRICE	RETURN	TARGET
Anoroq			OUTPERFORM 2 =
ARQ-TSXV	C \$1.28	88%	\$2.40 =
 Cameco			MARKET PERFORM 3 =
CCO-TSX	C \$31.76	-6%	\$30.00 =
 Denison Mines			OUTPERFORM 2 =
DML-TSX	C \$2.20	18%	\$2.60 =
 Eastern Platinum			OUTPERFORM 2 =
ELR-TSX	C \$1.63	29%	\$2.10 =
 First Uranium			OUTPERFORM 2 =
FIU-TSX	C \$0.83	105%	\$1.70 =
 Hathor			OUTPERFORM 2 =
HAT-TSXV	C \$2.63	14%	\$3.00 =
 Kiska Metals			OUTPERFORM 2 =
KSK-TSXV	C \$1.19	60%	\$1.90 =
 Lake Shore Gold			OUTPERFORM 2 =
LSG-TSX	C \$3.43	25%	\$4.30 =
 MAG Silver			OUTPERFORM 2 =
MAG-TSX	C \$8.09	27%	\$10.30 =
 Paladin Energy			OUTPERFORM 2 =
PDN-TSX	C \$4.39	16%	\$5.10 =
 Platinum Group			R =
PTM-TSX	C \$1.96	R	R =
 Strathmore			MARKET PERFORM 3 =
STM-TSXV	C \$0.92	-2%	\$0.90 =
 Stornoway			OUTPERFORM 2 =
SWY-TSX	C \$0.57	58%	\$0.90 =
 Uranium One			MARKET PERFORM 3 =
UUU-TSX	C \$4.08	3%	\$4.20 =
 Uranium Participation			MARKET PERFORM 3 =
U-TSX	C \$7.29	3%	\$7.50 =
 Ur-Energy			OUTPERFORM 2 =
URE-TSX	C \$1.50	20%	\$1.80 =
 Victoria			OUTPERFORM 2 =
VIT-TSXV	C \$1.51	6%	\$1.60 =

All figures in C\$, unless otherwise noted.
Sources: Raymond James Ltd., ThomsonOne, CapIQ

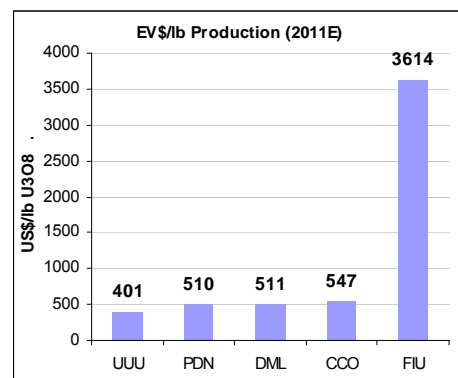
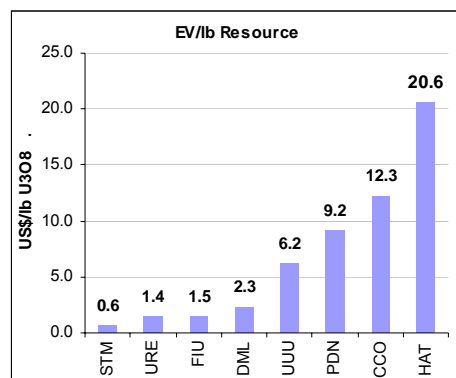
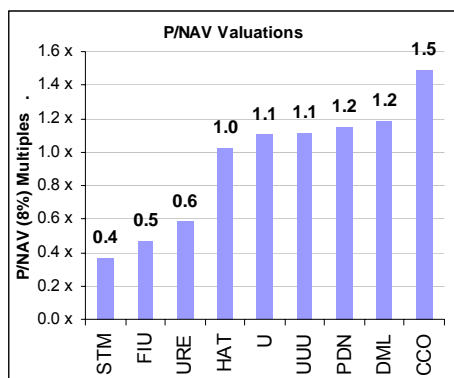
Exhibit 1: Uranium Market Snapshot and Primary Metrics of Our Uranium Equity Universe

Uranium Equity Comparables - Primary Metrics 26-Oct-10

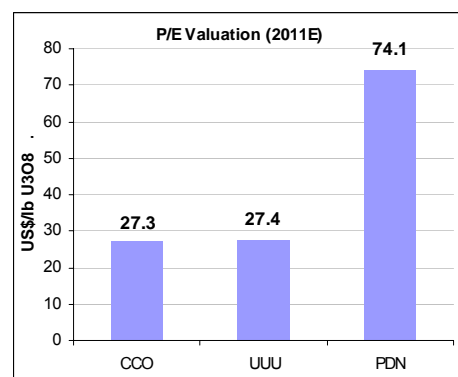
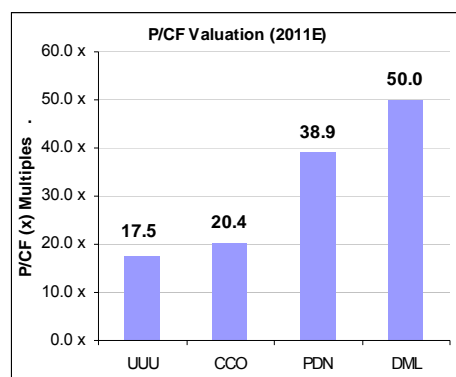
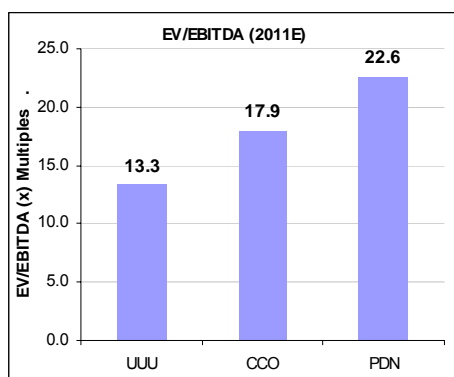
Price Tracker			
	This Week	Last Week	% Change
U3O8 (US\$/lb)			
Spot (UxC)	52.00	49.25	5.6%
Spot (TradeTech)	52.50	48.50	8.2%
LT Cont. (UxC)	62.00	60.00	3.3%
LT Cont. (TradeTech)	62.00	62.00	0.0%
Spot S/D (Mlbs U3O8e)			
Supply (TradeTech)	2.5	2.5	0.0%
Demand (TradeTech)	5.5	4.8	14.6%
S/D	0.45	0.52	-12.7%
UF6 Spot (US\$/kgU) Monthly Data			
N.Am. (UxC)	149.00	130.00	14.6%
N.Am. (TradeTech)	135.00	135.00	0.0%
SWU (US\$/SWU) Monthly Data			
Spot (UxC)	153.00	153.00	0.0%
Conversion (US\$/kgU) Monthly Data			
NA Spot (UxC)	13.00	13.00	0.0%



Valuation Metrics



Other Metrics



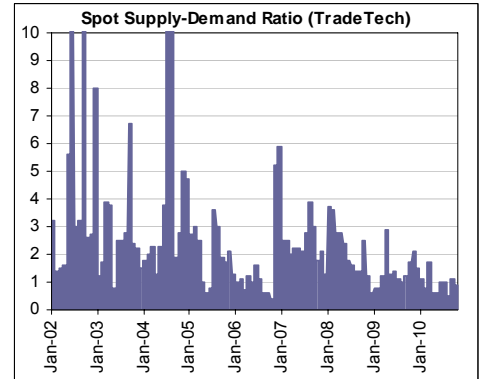
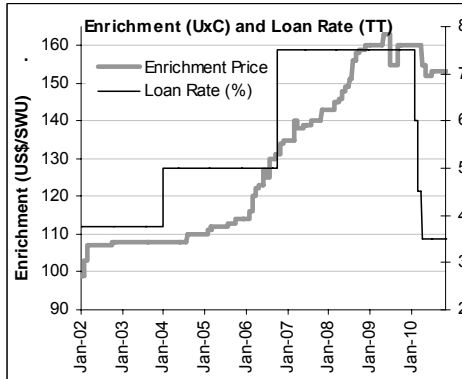
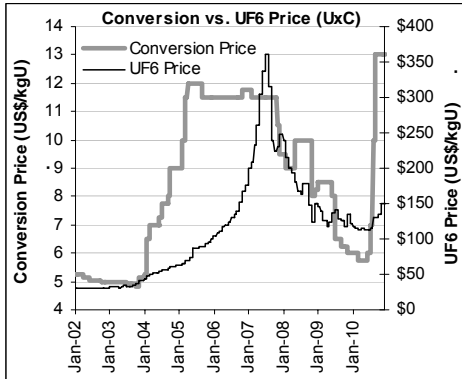
Source: Raymond James Ltd.; Thompson, Capital IQ, UxC, TradeTech

Exhibit 2: Secondary Metrics of Uranium Prices and Our Uranium Equity Universe

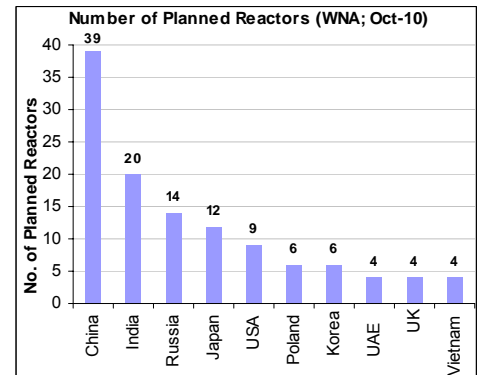
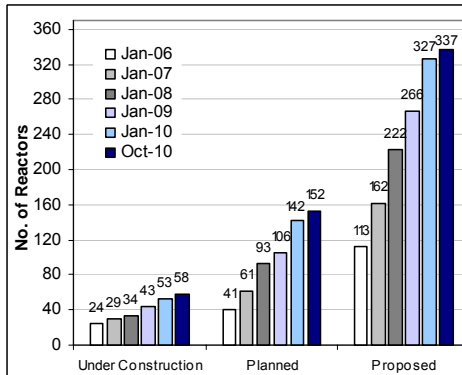
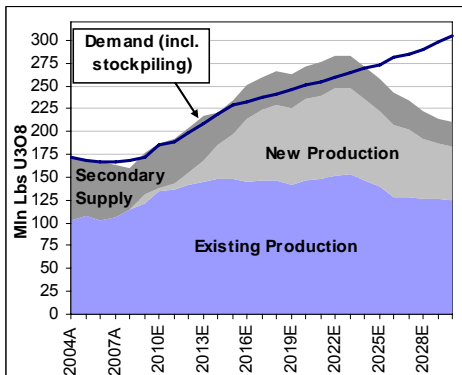
Uranium Equity Comparables - Secondary Metrics

26-Oct-10

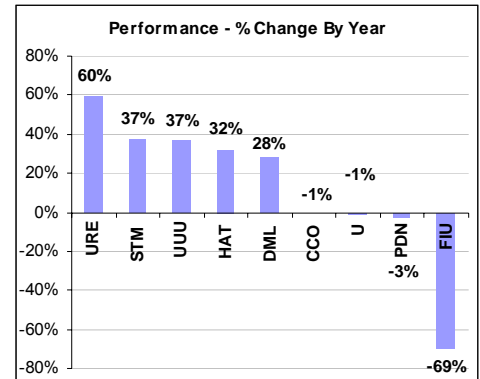
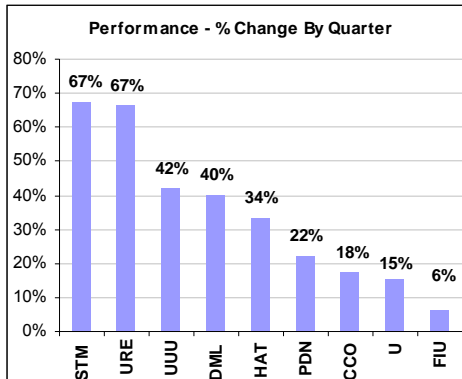
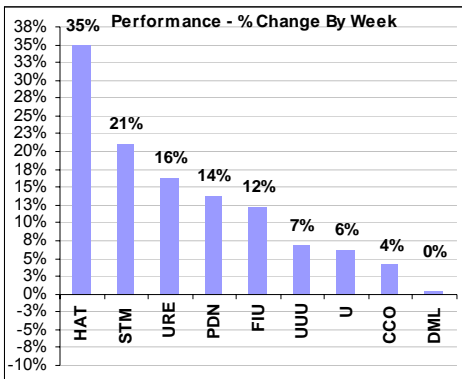
Conversion, Enrichment Prices



RJ Supply Demand Outlook and WNA Reactor Counts

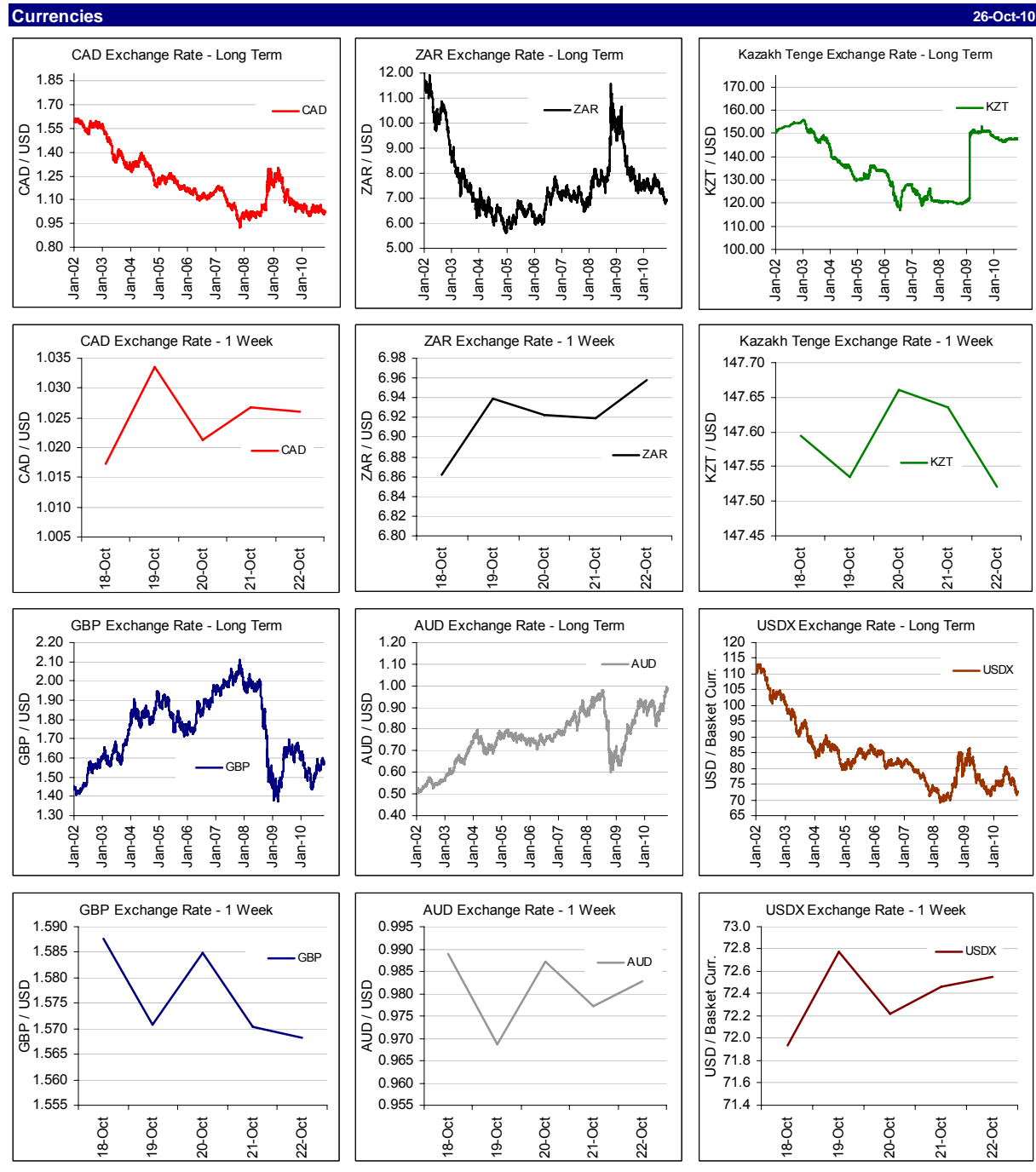


Price Performance



Source: Raymond James Ltd.; Thompson, Capital IQ, UxC, TradeTech, World Nuclear Association

Exhibit 3: Summary Performance Table of Pertinent Currencies



Source: Bloomberg, Raymond James Ltd.

Nuclear News

- **Kazakhstan Lowers 2010E Guidance.** Reports out of Kazakhstan indicate the Kazakh Ministry of Industry and Trade cut its 2010E production guidance by 2.3% or about 1.0 mln lbs to 45.7 mln lbs U3O8. We believe Kazakhstan is being motivated to scale back production due to cost-related, rather than altruistic factors.
- **ERA Cuts Guidance.** Energy Resources of Australia (ERA-ASX) revised its 2010E production guidance downwards after encountering lower than expected ore grades at its flagship Ranger mine in Australia's Northern Territory. ERA production is now expected to be 3,900 t U3O8 (10.1 mln lbs), -9-17% vs. previous guidance of 4,300 – 4,700 t. ERA and parent Rio Tinto (RTP-NYSE) are expected to meet sales guidance via spot market purchases.
- **CNNC to Invest US\$118 bln in Nuclear.** China's largest nuclear power utility, China National Nuclear Corp. (CNNC), stated it would invest US\$74 bln into reactor development by 2015 and US\$118 bln by 2020. Vice-president of China National Nuclear Corp. (CNNC), Lu Huaxiang, stated China's requirements are currently about 1,700 tU/yr (4.4 mln lbs U3O8) and could be met by domestic supplies, however, these needs are poised to increase ten times by 2020 (~44 mln lbs/yr). Huaxiang stated the country will "surely" need to continue its purchases from international sources either via supply agreements or acquisition of equity in explorers, developers and producers. CNNC aims to go public with its subsidiary, CNNC Nuclear Power Co. Ltd., in order to finance its expansion plans. Recently, China signed supply deals with major producers Cameco and Paladin.
- **Team Japan Formed.** Thirteen Japanese firms, including Tokyo Electric Power Corp. (9501-JP), Toshiba (6502-JP) and Hitachi (6501-JP), have united to form International Nuclear Energy Development of Japan Co., Ltd. (JINED), a consortium whose mandate is to win reactor build contracts in emerging markets. The Japanese government will provide legislative and financing support for the consortium.
- **CCO Avoids Strike.** Cameco and representatives of United Steelworkers Local 8914 have reached a tentative collective agreement, avoiding proposed strike action at the Key Lake mill and 18.7 mln lbs U3O8/yr McArthur River mine. Ratification will be conducted over the next two weeks.
- **BHP Targets Saskatchewan Uranium.** BHP Billiton (BHP-NYSE) CEO Marius Kloppers stated his company has been discussing the uranium potential of northern Saskatchewan. Kloppers stated, "two commodities

(potash and uranium), probably in order, are the ones that interest us,” and suggested that any acquisition target would have to be a large, world-class asset. BHP is known to be growing its presence in Saskatchewan, including setting up a 100-person office in Saskatoon.

- **Cigar Lake On-Track.** Cameco announced this week that remediation work at its 50%-interest Cigar Lake uranium mine in northern Saskatchewan remains on-track for completion in Oct-2010, with initial production still planned for mid-2013. The mine is estimated to produce 18 mln lbs U₃O₈ per year.
- **KORES to Boost Overseas Spending.** In an effort to increase imports of uranium, copper and coal, Korea Resource Corp. (KORES) stated it will increase spending on new and existing overseas projects by 83% to US\$550 mln in 2010. CEO Kim Shin Jong said the company was “increasingly targeting Africa and South America,” for deployment of the funds.
- **Pakistan Planning Additional Newbuild.** China National Nuclear Corp. (CNNC) is in negotiations with Pakistan to build an additional 1 GW plant in the South Asian nation. China has already constructed two 300 MW reactors, Chashma units 1 and 2, in the country and is under contract to build a further two 650 MW reactors, Chashma units 3 and 4.
- **French Government Backs Fast Neutron Reactor Development.** The French government plans to invest US\$840 mln in the development of a next generation fast neutron reactor named Astrid (Advanced Sodium Technological Reactor for Industrial Demonstration) set for initial operations by 2020. The Astrid program aims to commence industrial deployment of sodium cooled fast neutron units in 2040.
- **Russia and Kuwait, Korea and Argentina to Cooperate on Nuclear.** Russia and Kuwait have signed a memorandum of understanding in the field of civilian nuclear power that lays the groundwork for training of personnel, uranium exploration, as well as, reactor planning and construction. The agreement is set to last for five years. In early September, Kuwait announced it was planning to build four 1,000 MW reactors by 2022 to diversify its energy mix and to meet ramping electricity requirements. Meanwhile, South Korea and Argentina have signed a similar agreement to expand cooperation on nuclear projects, including potential life extensions at existing plants in the South American nation. Argentina currently operates two PHWRs and has a third, Atucha 2, due for start-up in Sept-2011. In related news, South Korea is expected to sign cooperation agreements in the near-term with the U.S. and Turkey.

- **Kenya, Malaysia Look to go Nuclear.** The government of Malaysia plans to spend US\$444 bln in private sector-led projects to help spur its economy and push the country to developed nation status by 2020. Amongst the initiatives are plans to identify sites for Malaysia's first nuclear power plant. Meanwhile, Kenya hopes to construct its first reactor by 2017 in an attempt to diversify away from fossil-fuel based energy sources. Kenya is studying the feasibility of a potential 1,000 MW plant using South Korean technology at a cost of US\$3.5 bln.
- **MIT: U.S. Need not Reprocess for a Century.** The Massachusetts Institute of Technology (MIT) released a report recommending continued use of an open nuclear fuel cycle in the U.S., stating that reprocessing is too costly, uranium resources too plentiful and above-ground waste storage too cheap and reliable to justify closing the fuel cycle.
- **Hong Kong Switching to Nuclear.** The Special Administrative Regional government of Hong Kong is seeking to increase the nuclear component of the island's energy mix to 50% (from 23% currently) by 2020. Currently, this 23% is comprised of 70% of the output of two 984 MW reactors at Daya Bay in Guangdong province.

Risks

Some of the specific risk factors that pertain to the projected 6-12 month stock price of uranium and platinum equities are as follows: (a) a decline in the price of gold affects the equity resource market independent of commodity; as such, uranium equities may be at risk of not being able to fund future exploration or development if gold price declines; (b) uranium is a highly regulated business and hence, requires long lead times in order to permit projects; uranium equities are at risk of being delayed on future development of current or future projects; (c) unforeseen aspects of the uranium's supply-demand fundamentals may dampen uranium price appreciation; there exists a small chance that 'rest of world' uranium inventories (outside of the western world) may be larger than currently believed; (d) production may come from minority interests in uranium operations; companies may therefore at times not have full control over their production.

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STRONG BUY 1: the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P/TSX Composite Index over the next six months. OUTPERFORM 2: the stock is expected to appreciate and outperform the S&P/TSX Composite Index over the next twelve months. MARKET PERFORM 3: the stock is expected to perform generally in line with the S&P/TSX Composite Index over the next twelve months and is potentially a source of funds for more highly rated securities. UNDERPERFORM 4: the stock is expected to underperform the S&P/TSX Composite Index or its sector over the next six to twelve months and should be sold.

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