

THE CIGAR LAKE REACTION: INVESTORS FLOOD JUNIOR URANIUM MINERS WITH DOLLARS

Junior Uranium Companies Race to Fill the Supply Deficit



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Dev Randhawa
Chairman & CEO
Strathmore Minerals Corp.



Bill Boberg
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Since the October 23rd announcement of Cameco's Cigar Lake uranium mine flooding, several junior uranium companies have behaved in the same way mining markets sometimes react to a major exploration discovery. The massive cobalt-copper-nickel discovery at Voisey's Bay in Labrador comes to mind. Call it a world-class exploration discovery in reverse.

When a junior exploration company makes a discovery, investors pile into the nearby moose, antelope or orangutan pasture hoping their favorite company will catch a piece of the discovery trend. It's called an 'area play,' and most fail to repeat the prime mover's success. In this case, the exploration discovery was the force majeure clause in Cameco's supply contracts with U.S. and other utilities, leaving them with empty hands to fuel their nuclear reactors. Many had been counting upon readily available uranium supply about two to four years hence.

Unlike the typical area play, this one is not geographically isolated to one region. Any company, which can quickly get uranium out of the ground, becomes the horse to bet on. And investors have

been flooding their favorite juniors with new money to help propel them into production faster.

The discovery deposit now being mined by the junior uranium companies is the 'complacency' of the world's utilities. Twenty years of relatively inexpensive uranium lulled utilities into believing nuclear fuel would always be available. True, there is no shortage of uranium below the Earth's surface or in the oceans, but it's not cheap to extract. During the uranium depression of the 1980s and 1990s, environmentalists re-wrote the rule book, sending the permitting costs into orbit. Unless one is opening a mine in Namibia, as Paladin has done, or mining in Kazakhstan, one can have 'environmental delays,' that can last a number of years.

In his *Weekly Insights*, FNArena editor Rudi Filapek-Vandyck wrote last night, "Cigar Lake was scheduled to ramp up over three years from the end of 2007 to reach full production of over 8000 tonnes of U3O8 a year." He put the loss of that much uranium supply to the market in context, "Australia's largest producing mine, Energy Resources of Australia's (ERA) Ranger mine produced around 5200 tonnes in the year to June 2006. BHP Billiton's (BHP) Olympic Dam mine produced just under 4000 tonnes during the period. Paladin Resources' (PDN) Langer Heinrich project in Namibia, still on schedule to ramp up in December this year, is forecast to produce circa 1180 tonnes per year."



Rudi Filapek-Vandyck, editor of FN Arena.com, maintains a subscriber-only independent financial news service, focusing on Australian, New Zealand and mining equities. Rudi and his team contributed the Australian analysis for Chapter Five of "Investing in the Great Uranium Bull Market." Having outstanding sources and connections, the FN Arena news service often has the jump on the rest of the world's financial media for commodities coverage. Visit: <http://www.fnarena.com>

Which Junior Uranium Miners Can Help Replace Cigar Lake's Lost Uranium Production?

The cold, hard reality of Cigar Lake's lost uranium production dawned upon the crowd of uranium suppliers, near-term producers, fuel brokers and global utility fuel managers when the announcement was made at the commencement of last week's Nuclear Energy Institute (NEI) Annual Uranium Conference in Quebec City. Cigar Lake's mine flood was the big story – the trapdoor that spelled 'doom' for utilities lacking secure uranium supply sources beyond 2008.

Investors quickly reacted to the news with frenzied bidding for shares in near-term producers SXR Uranium One and Paladin Resources. Potential near-term producers Energy Metals Corp and UR-Energy got the nod. Others among this elite category began attracting the aggressive investor dollars: Forsys Metals, Uranerz Energy and Strathmore Minerals.

Logic dictated the loss of Cigar Lake would drive up the uranium price much higher, possibly to the very limit utilities might pay for nuclear fuel to ensure their reactors would not be closed down for lack of the now very-precious uranium oxide. "Where is the safe haven for my money?" investors asked. On the face of it, the answers appeared to be simple: (a) go the near-term producers and (b) uranium friendly U.S. states, such as Wyoming and Texas.

We tapped on the Chief Executives of companies we featured in Chapter Nine of *Investing in the Great Uranium Bull Market*, for their insights into the Cigar Lake disaster. SXR Uranium One Chief Executive Neal Froneman wrote bluntly, "The challenges of bringing new mines into production are very significant." He hopes to not err with overconfidence on his flagship uranium mine in South Africa, "I do not under estimate the challenges of bringing even Dominion into production even though it has a low technical risk." But he added, "Investors are now recognizing the low risk nature of Dominion."

Froneman was clear about his views on becoming a U.S. uranium producer, "Our entry into the United States looks well timed, and at \$60/pound a steal. We have always envisioned supplying U.S. uranium to U.S. end users. The uranium supply constraints will make this a natural progression."

He wasn't as optimistic about the time projections of some developing projects as many investors, writing, "Supply constraints for the next few years will intensify as imminent producers will not meet their promises." Froneman concluded, "This will drive uranium prices much higher." Another insight he brought to our attention, "We have put our money where our mouth is by being totally unhedged." Why is that important? He told us, "We have avoided bank debt so that we can avoid being forced by banks to hedge our uranium production." And so, that will indeed help uranium prices climb higher.

We exchanged phone calls and emails with Bill Boberg, Chief Executive of UR-Energy about Cameco's catastrophe. He wrote, "I will that it did not happen, but it is a reflection on the current thin uranium supply and demonstrates why some of us juniors working to bring mines into production in the next few years are worthy of investment." He added, "I think all juniors, but especially those with production relatively near term, have benefited from Cameco's bad news."

But why do we see such strong market activity in the juniors? "I think we have been seeing increasing knowledge of the uranium sector in the past couple years and, with that, an increase in market activity," he told us. "The StockInterview guide to the uranium sector has been a real player in that increase in knowledge base by investors. The rapidity at which the Cigar Lake flooding affected the market activity in junior uranium stocks is a reflection of the knowledge that uranium supply is tight, and that the Cigar Lake flooding made it even tighter for the next few years."

The biggest percentage gainer among junior uranium development companies on Monday, as a result of the recent 7-percent jump in the spot uranium price, was Strathmore Minerals. We talked with Strathmore Minerals Chief Executive Dev Randhawa about the company's 20-percent price rise accompanied by nearly 2.8 million shares of trading. "Investors are looking for a stable environment," Randhawa told us. "The market is demonstrating how tight supplies really are." He also pointed out there was in his company by foreign interests, but would not specify anyone in particular. "Strathmore is a turnkey operation in the United States with proven resources and a highly qualified technical team with many decades of in situ recovery mining experience," he explained.

"All along our strategy, with David Miller, was to acquire uranium properties which could be produced at, or less than, \$30/pound," he said. "When we first started this strategy, there were only three or four other companies on the radar screen, so we got the jump on many of the best uranium properties." He explained, "We are well diversified in the United States, Canada and have holdings in Peru." The company is reportedly the largest landholder in the Athabasca Basin as well.

We asked about his Dieter Lake property in Quebec, which previous work suggests might contain as much as 110 million pounds of U3O8 contained. Because it is not compliant with National Instrument 43-101, we don't hear much about it. How does the recent spot uranium spike affect moving forward on Dieter Lake? "Projects and properties which were not previously on the radar screen are now going to be economic," Randhawa responded. "Dieter makes sense now," he added.

Strathmore Minerals also benefited from across the pond on Monday, after Jamie Strauss, Head of Institutional Sales for London-



Jamie Strauss founded the Hargreave Hale Institutional mining desk in early 2003, where he serves as Head of Institutional Sales. Strauss has emerged as one of Europe's leading experts on Uranium. Prior to joining Hargreave Hale as partner and head of institutional sales in 2000, he previously worked for Arnold Bleichroder and Merrill Lynch (New York) and later at Societe Generale.

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based Hargreave Hale, issued a buy recommendation. His thumbs-up for Strathmore blew the company's shares past the strong buy recommendation and C\$2.50/share price target issued by Bart Jaworski of Raymond James on October 20th.

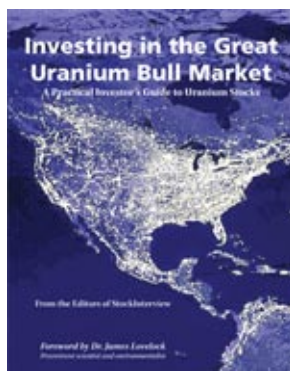
In his desk notes, Strauss wrote, "...the quality and diversity of its asset base, increasing confidence that the company is approaching the title of 'near term producer', a highly competent technical team and above all a valuation which offers not only equity funds the opportunity to invest but also consolidators within the industry..." Strauss added, "Using code-compliant resources only, Strathmore could therefore more than double the share price before hitting fair value." Strathmore Minerals, along with SXR Uranium One and Energy Metals, are among the favorites of Sprott Asset Management.

While numerous uranium mining executives rejoiced over the spot price jump to US\$60/pound, one CEO took it with a grain of salt. When we phoned Uranerz Energy Chief Executive Glenn Catchpole for his reaction to the market's behavior, he took it in stride. After we

informed him of the 7 percent jump in spot uranium, he dryly responded, "We as a company can benefit - the company will benefit from the increased prices." He did acknowledge Uranerz was getting large trading volume. "We thought the stock would dip, but it hasn't," he told us, referring to large number of share which recently became free trading. Other than that, it was business as usual for Catchpole - getting his in situ uranium recovery operation through the final hurdles to join the ranks of uranium producers. After all, if Cameco won't be mining uranium in Cigar Lake in the foreseeable future, someone has to.

Until then, we anticipate mining analysts will be upwardly revising their price targets on these and other companies. And so the flooding will continue, perhaps at both Cigar Lake and in the junior uranium sector.

Websites and Trading Symbols of companies mentioned in this report:		
Cameco Corporation	NYSE: CCJ	www.cameco.com
Paladin Resources	TSX: PDN	www.paladinresources.com.au
Strathmore Minerals	TSX: STM	www.strathmoreminerals.com
SXR Uranium One	TSX: SXR	www.uranium1.com
UR-Energy	TSX: URE	www.ur-energy.com
Uranerz Energy Corp	AMEX: URZ	www.uranerz.com



The above featured companies were also featured in Chapter 9 (Editor's Choice section) of *Investing in the Great Uranium Bull Market*.

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