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Uranium sector on the cusp of recovery

Uranium is a clean source of energy and it will continue to be so. In the energy sector, there simply aren't a lot of alternatives.

The uranium market has been on a long and bumpy ride to recovery since the 2008 financial crisis crippled the commodities sector. Throughout the second half of 2010, investors cheered as the U_3O_8 spot price surged to more than US $30/lb, eventually hitting a pre-crash high of US $72/lb in January 2011. By that time, the uranium sector's recovery seemed imminent – until March 11, 2011. Following the devastating 9.3 magnitude earthquake and tsunami off the Pacific coast of Japan, there was a nuclear disaster at the Fukushima Daiichi Nuclear Power Plant, where radioactive particles were released into the atmosphere.

The impact of the Fukushima tragedy was felt around the world. Japan immediately shut down all of their 50 nuclear power plants and Germany shut down some of its nuclear power plants and made plans to close the rest. Even China, which has led the world in nuclear reactor construction, scaled back its plans and became more selective about where it plans to build its plants. All these contributing factors led to lower demand for uranium and the crash of the uranium spot prices.

With uranium prices as low as they are, M&A activity has picked up over the past several months. In the past year, the following events took place:

- Rio Tinto completed the takeover of Hathor Exploration
- Russia's ARMZ bought out Uranium One for $2.86/share which valued Uranium One at about $2.8B
- Denison Mines agreed to acquire all the issued and outstanding shares of Fission Energy Corp.

There were already a limited number of quality uranium producers and established developers, and now that the Uranium One deal has gone through, supply has become scarcer. The big players are shelving large capex projects and looking for low-cost projects. As long as prices are low, companies are able to pick up properties for cheap, and wait for uranium prices and demand to increase.

During the last few months of 2012, analysts were predicting that 2013 would be a turnaround year for the uranium market. Several months into 2013, the lackluster spot market activity is leading impatient investors to wonder if those forecasts will come true. But, in interviews from *Uranium Investing News*, most analysts and industry players are still confident that the uranium sector is long overdue for a rally in not only the spot market, but also the junior mining sector. There are more than several factors pointing towards a near future recovery in the uranium sector.

As we pass the second anniversary of Fukushima, economic problems seem to have shifted public opinion about nuclear power plants. Many reports indicate that 2013 will be the year that nuclear reactors are expected to come back online. The CEO of Areva, which supplies fuel for Japanese nuclear power plants, predicted that two-thirds of the reactors in Japan will be restarted within the next several years. He also predicted that half a dozen may restart by the end of year, which would triple the amount of the existing nuclear power plants in Japan.

In December, the Japanese government lost power to Prime Minister Abe's party, which promised to improve the economy and is emphasizing the need for nuclear power. Additionally, China currently has 26 nuclear reactors under construction and plans to build 100 new reactors by the end of this decade.

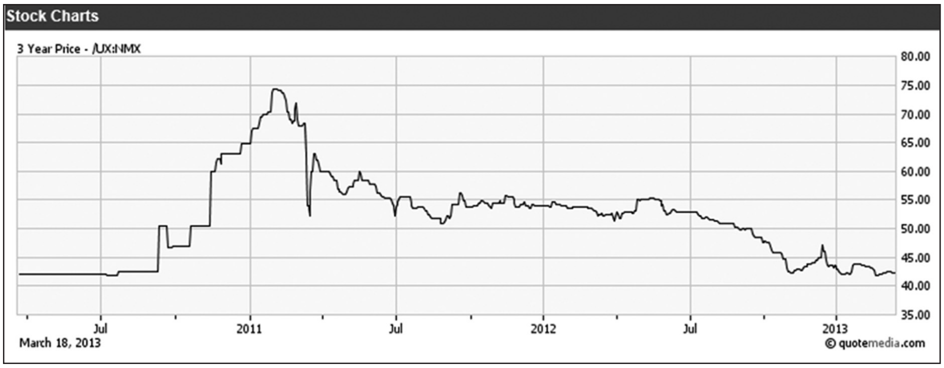
Another factor that adds to the demand of uranium is the United States seeking energy independence. Energy independence for a country of such population and consumption is nearly impossible without the development of nuclear power. The US Department of Energy is set to release a draft environmental impact statement this March concerning 31 uranium mining leases covering 25,000 acres between Naturita and Moab, Utah. The federal agency is hoping to overturn an October 2011 federal court ruling dictating that it ceases mining-related activities through its leasing program due to a number of environmental concerns.

Data from the World Nuclear Association shows that 62 reactors will be under construction worldwide in 2013, with another 484 either planned or proposed. These new nuclear plants will be developed in China, India, Russia, Ukraine, US, UK, South Korea, and U.A.E.

All signs point to uranium demand rising and there are deals for delivery of uranium later in the year compared to immediate delivery, which means that the market should see higher prices down the road. However, the supply/demand fundamentals leading the recovery won't begin to have any impact on the spot market until the second half of the year. For the long term, *The Australian* predicts that the global demand for nuclear fuel is expected to increase from 166 million pounds in 2011 to 226 million pounds by 2020, and should total 280 million pounds U_3O_8 by 2030.

We believe that current uranium prices have hit a bottom. Industry leaders anticipate a uranium supply deficit in 2014 and believe US $50/lb to US $55/lb prices are approaching. At the time of writing, the uranium spot price stands at US $42.25/lb. Uranium has been priced for the worst possible news lately, and the trend of negative news seems to be ending. Any good, strong, positive catalyst could make the prices move higher and in large increments.

With recent good news about the demand on the rise, uranium mining com-



U_3O_8 Spot Price

panies have started to realize gains in the past several months. Saskatchewan-based Cameco Corp., the world's largest uranium supplier, reached $21.98/share compared to a low of $16.75/share on November 15, 2012. This is the first sign of any true recovery in the uranium sector.

Kazakhstan, Australia and Canada are the top three producers and account for 63% of world uranium production. The world's leading source of high grade uranium is the Athabasca Basin, a region in northern Saskatchewan and Alberta. Over the past year, Canada entered an agreement with India to export uranium and expanded an original agreement with China to increase uranium exports. Companies with property in the Athabasca region are excited about the opportunity uranium presents and are patiently awaiting a recovery in the uranium sector. ■

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