



## Uranium

# New Report: Going Critical – A review of the Uranium Sector

Industry Rating (Div.  
Metals & Mining):  
Underweight  
  
(NBF Economics &  
Strategy Group)

### Highlights from our New Report:

- **Has the “uranium train” left the station?**

Uranium appears to be the hot commodity for 2005. As the price firmed in 2004, junior explorers began accumulating uranium resources around the globe. We now have one senior producer, three junior producers, and some twenty exploration companies active in the North American uranium sector. Standard stock valuations have given way to pure price momentum, and as such we would now consider an investment in the sector to be highly speculative.

- **Supply deficits should equate to higher uranium prices over the next five years.**

The uranium market had a stellar 2004 and although the pace seems to have slowed for the spot price the trend upward continues. After years of underproduction relative to demand the market realities have finally been realized by all the players. With supply deficits expected for at least the next five years the outlook for higher prices is very positive. It will take time to bring on new capacity as most of the old mines have been permanently closed and reclaimed. The Ux Consulting spot price was US\$21.75 on February 21 and the term price of January 31, was US\$26.00 per pound. We are forecasting that both these prices will move into the US\$30 range before the end of the decade and that may prove conservative.

- **Own producers to capitalize on a rising commodity price.**

Over the next couple of years, most producers have sold their production through long-term contracts that are below current spot prices. Despite this, we believe that producers will still be rewarded by the market for higher commodity prices. As such we recommend that investors have some exposure to producers in their portfolios. In North America, the producing sector includes Cameco, Denison, Uranium Resources and International Uranium (through alternate feed processing).

- **Play a basket of junior explorers with diversified assets.**

In the exploration sector, investors should focus on companies that have: resources; projects near an existing mill or that can be exploited using ISL techniques; projects in reasonable permitting jurisdictions (i.e. Africa, Mongolia, Colorado Plateau, Athabasca basin); and management with previous uranium experience.

Stock selections from the report include: Cameco; Denison, International Uranium, Western Prospector and Strathmore (we are initiating coverage on these four companies); and Erdene Gold.

- **Cameco is the largest producer of uranium in the world and has the largest reserve base.**

Cameco is 100% owner and operator of Canada's only uranium refining and conversion facilities, located in Ontario. Cameco produces nuclear electricity through its 31.6% share of Bruce Power, which leases eight nuclear power plants from Ontario Power Generation. Cameco also owns 53% of Centerra Gold Inc., a publicly traded company, which is a growth oriented Canadian-based gold mining and exploration company. Cameco is rated a Sector Perform with a Cdn\$60.00 target price.

- **International Uranium has one of the few permitted uranium mills in the United States.**

International Uranium is a junior resource player that is part of the Lundin Group of Companies. It entered the uranium business in 1997 by acquiring the uranium producing

Brian Christie – (416) 869-7118  
brian.christie@nbfinancial.com  
Ian Howat – (416) 869-7936  
ian.howat@nbfinancial.com

Associate:  
Christos Doulis – (416) 869-6515  
christos.doulis@nbfinancial.com

Associate:  
Shanthu David – (416) 869-6538  
shanthu.david@nbfinancial.com

assets of Energy Fuels. The company's key assets include: the White Mesa mill in southeastern Utah, which has the ability to process uranium ores and alternate feed materials; a 100% interest in 10 U.S. uranium properties (some of which are past producers) with 22.5 million lbs of resources; a 70% interest in the Gurvan-Sailhan uranium joint venture in Mongolia (resources of 16.1 million lbs); and a 75% interest in the Moore Lake uranium project in Saskatchewan. International Uranium is rated a Sector Perform with a Cdn\$7.75 target price.

■ **Denison is the largest junior uranium producer in Canada.**

Denison Mines is a junior uranium producer and explorer, that was spun out of Denison Energy in March 2004. Denison has a 50-year history of supplying the worldwide nuclear industry. The company's key assets are located in the Athabasca basin and include a 22.5% interest in McClean Lake, a mature operating uranium production facility that is one of the five largest in the world, and a 25.17% interest in the Midwest uranium project. Reserves at these projects are sufficient to support annual production of about 1.0 million lbs for the next 10 to 12 years. Denison is rated a Sector Perform with a Cdn\$23.25 target price.

■ **Western Prospector is a Vancouver-based junior resource company that is focused on developing uranium resources in Mongolia.**

The company's principal uranium asset is the Saddle Hills Uranium Project, which includes the Gurvanbulag deposits that were partly developed by the Russians in the 1980's. This property has extensive underground development including four shafts. Historical uranium resources are estimated to be 41.9 million lbs. Given the large amount of development work already completed by the Russians, and the fact that Mongolia is likely to be a favourable permitting location, we rate the stock an Outperform with a Cdn\$5.75 target price.

■ **Strathmore is a Canadian based junior resource company specializing in the acquisition and development of uranium properties on a worldwide basis.**

Since 1996, the company has been actively acquiring uranium resources that have been discovered, but not mined. The company currently holds a portfolio of properties in the United States, in Canada and in Peru with resources totalling 116.4 million lbs. Given that the company has a large portfolio of projects with historical resources, some of which are located in reasonable permitting jurisdictions and could be amenable to ISL processing, we rate the stock an Outperform with a Cdn\$4.00 target.

■ **Erdene Gold is a junior exploration company focused on Mongolia.**

It currently has 24 projects in Mongolia that cover a wide variety of commodities including gold, copper-gold, copper-molybdenum and uranium. The company has drill ready targets on many of its holdings, and exploration spending in 2005 is estimated to be Cdn\$4 to \$5 million. Although the company's uranium properties (19 licences and applications) are generally grassroots in nature, they do cover multiple uranium occurrences (some of which have been drilled) as well as numerous high level radiometric anomalies. We have basically valued the company on its gold and base metal holdings, and as such the uranium projects are considered a bonus. The shares are rated Outperform with a Cdn\$1.60 target price.

**Our new report has been mailed to clients and is also available at  
[www.nbfinancial.com](http://www.nbfinancial.com)**

**DISCLOSURES:**

**Ratings And What They Mean:**

**PRIMARY STOCK RATING:** NBF has a three-tiered rating system that is relative to the coverage universe of the particular analyst. Here is a brief description of each: **Outperform** – The stock is expected to outperform the analyst's coverage universe over the next 12 months;

**Sector Perform** – The stock is projected to perform in line with the sector over the next 12 months; **Underperform** – The stock is expected to underperform the sector over the next 12 months.

**SECONDARY STOCK RATING: Under Review** – Our analyst has withdrawn the rating because of insufficient information and is awaiting more information and/or clarification; **Tender** – Our analyst is recommending that investors tender to a specific offering for the company's stock; **Restricted** –

Because of ongoing investment banking transactions or because of other circumstances, NBF policy and/or laws or regulations preclude our analyst from rating a company's stock.

**INDUSTRY RATING:** NBF has an Industry Weighting system that reflects the view of our Economics & Strategy Group, using its sector rotation strategy. The three tiered system rates industries as **Overweight**, **Market Weight** and **Underweight**, depending on the sector's projected performance against broader market averages over the next 12 months.

**RISK RATING:** NBF utilizes a four-tiered risk rating system, **Low**, **Average**, **Above Average** and **Speculative**. The system attempts to evaluate risk against the overall market. In addition to sector-specific criteria, analysts also utilize quantitative and qualitative criteria in choosing a rating. The criteria include predictability of financial results, share price volatility, credit ratings, share liquidity and balance sheet quality.

#### **General**

National Bank Financial (NBF) is an indirect wholly owned subsidiary of National Bank of Canada. National Bank of Canada is a public company listed on Canadian stock exchanges.

The particulars contained herein were obtained from sources which we believe to be reliable but are not guaranteed by us and may be incomplete. The opinions expressed are based upon our analysis and interpretation of these particulars and are not to be construed as a solicitation or offer to buy or sell the securities mentioned herein.

#### **Research Analysts**

The Research Analyst(s) who prepare these reports certify that their respective report accurately reflects his or her personal opinion and that no part of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views as to the securities or companies. NBF compensates its Research Analysts from a variety of sources. The Research Department is a cost centre and is funded by the business activities of NBF including, Institutional Equity Sales and Trading, Retail Sales, the correspondent clearing business, and Corporate and Investment Banking. Since the revenues from these businesses vary, the funds for research compensation vary. No one-business line has a greater influence than any other for Research Analyst compensation.

#### **Canadian Residents**

In respect of the distribution of this report in Canada, NBF accepts responsibility for its contents. To make further inquiry related to this report, Canadian residents should contact their NBF professional representative. To effect any transaction, Canadian residents should contact their NBF Investment advisor.

#### **U.S. Residents**

NBF Securities (USA) Corp., an affiliate of NBF, accepts responsibility for the contents of this report, subject to any terms set out above. Any U.S. person wishing to effect transactions in any security discussed herein should do so only through NBF Securities (USA) Corp.

#### **UK Residents**

In respect of the distribution of this report to UK residents, NBF has approved this financial promotion for the purposes of Section 21(1) of the Financial Services and Markets Act 2000. NBF and/or its parent and/or any companies within or affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant securities or related financial instruments discussed in this report, or may act or have acted as investment and/or commercial banker with respect thereto. The value of investments can go down as well as up. Past performance will not necessarily be repeated in the future. The investments contained in this report are not available to private customers. This report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever.

This information is only for distribution to non-private customers in the United Kingdom within the meaning of the rules of the Regulated by the Financial Services Authority.

#### **Copyright**

This report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of National Bank Financial.

#### **ADDITIONAL COMPANY RELATED DISCLOSURES**

**If a company specific disclosure is not found herein for a listed company, NBF at this time does not provide research coverage or stock rating for the company in question**

#### **ERD**

In the past 12 months NBF acted as financial advisor, fiscal agent, or underwriter to the company that is the subject of this report and received remuneration for its services.

NBF is an indirect wholly owned subsidiary of the National Bank of Canada. From time to time the National Bank of Canada may enter into lending or financial arrangements with companies that are the subject of NBF Research Reports. At the date of this report, National Bank of Canada is not a lender to the company which is the subject of this report.

NBF and/or its Affiliates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. On the last day of the month preceding the date of this report, NBF and its Affiliates held in the aggregate less than 1% of the outstanding shares (of any class of equity securities) of this issuer.

#### **URIX, UVN, SXR, QGO, LAM, JNN, HBE, GRS, FRG, EMC, CVV, BCP, PDN**

In the past 12 months NBF has not acted as financial advisor, fiscal agent or underwriter for the company that is the subject of this report. NBF may act in such a capacity in the future and receive, or expect to receive, compensation for such activities.

NBF is an indirect wholly owned subsidiary of the National Bank of Canada. From time to time the National Bank of Canada may enter into lending or financial arrangements with companies that are the subject of NBF Research Reports. At the date of this report, National Bank of Canada is not a lender to the company which is the subject of this report.

NBF and/or its Affiliates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. On the last day of the month preceding the date of this report, NBF and its Affiliates held in the aggregate less than 1% of the outstanding shares (of any class of equity securities) of this issuer.

**UEX**

In the past 12 months NBF has not acted as financial advisor, fiscal agent or underwriter for the company that is the subject of this report. NBF may act in such a capacity in the future and receive, or expect to receive, compensation for such activities.

NBF is an indirect wholly owned subsidiary of the National Bank of Canada. From time to time the National Bank of Canada may enter into lending or financial arrangements with companies that are the subject of NBF Research Reports. At the date of this report, National Bank of Canada is not a lender to the company which is the subject of this report.

NBF and/or its Affiliates may have a position in the securities mentioned herein and may make purchases and/or sales of these securities from time to time in the open market or otherwise. On the last day of the month preceding the date of this report, NBF and its Affiliates held in the aggregate less than 1% of the outstanding shares (of any class of equity securities) of this issuer.

NBF is a Registered Trader on the Toronto Stock Exchange for the company that is the subject of this report.