

## Third Quarter Spot Uranium Review

Traditionally, summer can be seasonally slow with respect to spot volume and is also the most likely period where downward price pressures could appear. As we discuss below, this summer was all but slow or declining.

**Third Quarter Recap** – Summer volume swelled due to the DOE auction and investor purchases. The U.S. Department of Energy auctioned off seven lots of 100 MTU as UF<sub>6</sub> (~260,000 pounds U<sub>3</sub>O<sub>8</sub> equivalent) totaling over 1.8 million pounds U<sub>3</sub>O<sub>8</sub>e. Investor purchases picked up as well. A new investment fund, Nufcor Uranium Limited (NUL), entered the market in July and now holds a little over two million pounds U<sub>3</sub>O<sub>8</sub>. The other public investment fund, Uranium Participation Corporation (UPC), also reported a couple of additional deals. Two hedge funds also received some press, Lido Park, which purchased three of the seven DOE lots, and Solios Asset Management.

Given this activity, both July and August posted well over four million pounds U<sub>3</sub>O<sub>8</sub>e each month (see chart on page

7). Volume then declined in September, but was bolstered by utility buying, bringing the quarter's volume to 10.5 million pounds U<sub>3</sub>O<sub>8</sub>e under 37 transactions. This compares to the first quarter's 30 deals for 7.6 million pounds, and the second quarter's 29 deals for 7.5 million pounds (see table on page 4). Last quarter's number of deals is the highest quarterly level reported since the first quarter of 1995. While the transaction count was high, the average volume per deal was down, indicating the relative smaller volume size per transaction. Year-to-date volume totals 96 deals for 25.6 million pounds U<sub>3</sub>O<sub>8</sub>e, and is approaching last year's higher levels.

Straight U<sub>3</sub>O<sub>8</sub> purchases increased dramatically last quarter totaling 5.3 million pounds (or 50% of the volume), due in part to the initial NUL purchase of two million pounds U<sub>3</sub>O<sub>8</sub> (see chart on page 10). The DOE auction and UPC purchases also played a role in increased UF<sub>6</sub> volume, which totaled 5.2 million pounds or 49% of the quarter's volume. Enriched uranium product (EUP) accounted for the remaining 1% share.

Average leadtime before delivery has varied over the previous three years with quarterly averages from as low as 2.9 months to as high as 7.9 months, with an overall average of 4.7 months from 2003-2005. The historic average spot leadtime before delivery was six months, with recent activity reflecting a decline in the historic trend. Over the third quarter,

the average was just 3.7 months, similar to that of the first two quarters' 3.3 and 3.8 months, respectively. This shortening trend is reflective of sellers' reluctance to offer competitive pricing on deliveries in future time periods when market prices could move even higher, and the nature of delivery schedules associated with the auction-like sales.

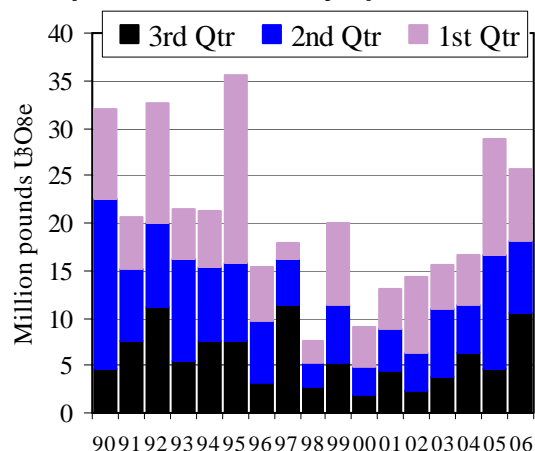
Combining the material sold under buyer bidding and additional investor purchases, it is not surprising to see the continued discretionary classification being associated with the bulk of the spot volume (see chart on page 4). Discretionary purchases accounted for 74% of the quarter's volume and 76% of the annual volume. So-called "off-market" activity declined slightly, accounting for 73% of the quarter's volume. This is down from an 83% average share from the first two quarters, and last year's overall 82%. This decline can be attributed to the more public nature of auction-type sales.

One of the trends that has continued this year is the auction-like sale. Earlier this year, DOE, and USEC selling DOE material, put up several lots of UF<sub>6</sub> for sale to the highest bidder. Throughout the year, Mestena Uranium, a U.S. uranium producer, has put up ten lots (including the one last week, see page 10) of U<sub>3</sub>O<sub>8</sub>, and DOE sold an additional seven lots of UF<sub>6</sub> last quarter. New to the auction scene is Nufcor International Ltd., which has placed up to 100,000 kgU as UF<sub>6</sub> to the highest bidder this month. This auction-like bidding has contributed to the upward price movement this year, and of the deals that

**Ux U<sub>3</sub>O<sub>8</sub> Price: (10/23/06)**  
**\$56.00 (Unch.)**

**Ux LT U<sub>3</sub>O<sub>8</sub> Price: (9/25/06)**  
**\$54.00**

### Comparison of Quarterly Spot Volumes



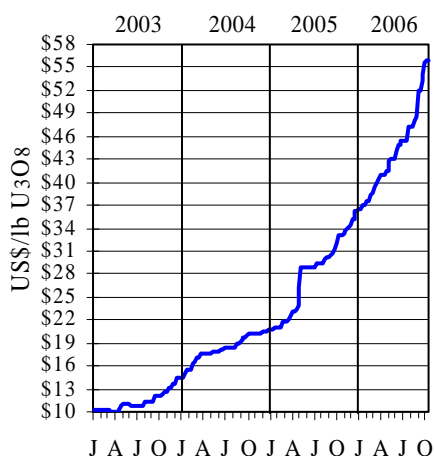
have been reported, none have yet involved a successful utility buyer.

Given the continued demand pressure placed on the spot market, it is not surprising to see spot price maintain its upward climb during the third quarter. After increasing a total of \$9.25 for the first six months of the year (see chart below), the Ux U<sub>3</sub>O<sub>8</sub> Price ended June at \$45.50 per pound. During the third quarter alone, price climbed another \$8.50, to end the quarter at \$54.00 per pound, up a total of \$17.75 for the year (or about 50%). This \$8.50 per pound quarterly increase also marks the second highest price increase for a quarter almost topping the \$9 increase posted back in the third quarter of 1975, and easily surpasses the \$6.50 increase in the second quarter of 2005.

**Fourth Quarter Outlook** – A common theme in this quarter's review was the buyer bidding trend in the market. Auction-like selling methods are expected to continue throughout the next year. As DOE determines how it will start selling additional inventories into the market, at least a part of it is expected to be sold through the bidding process. Add to this the other sellers who have either already used this method or are now evaluating it, and this latter addition gives just another indication of how we have moved into a "seller's market."

The spot price has already increased another \$2 in early October, and the Ux U<sub>3</sub>O<sub>8</sub> Price has now averaged a \$2 per

### Ux Weekly Uranium Spot Prices



month increase since the beginning of the year. There is little in the way of downward pressure, and no specific conditions foreseen where prices could turn over in the near term. At some point in time, the continued heavy term contracting activity by utilities could reduce their spot demand, but currently utilities are still active players in the spot market. The investment community continues to play a role as do other buyers such as traders and producers. As each new round of demand emerges on the market, it is been met with either market-related pricing options, or ultimately higher price levels.

Given the uranium market's relatively tight position, news such as this morning's announcement of further delays at Cigar Lake (see news brief below), is already sending tremors throughout the industry. All market participants will be closely following the developments surrounding this latest mine flood, waiting for additional updates to determine the full severity.

## News Briefs

### Major Mine Flood at Cigar Lake

On October 23<sup>rd</sup>, Cameco announced that flooding began the previous day at its Cigar Lake project and as a result, it initially reported that development of the mine is likely to be delayed for at least one year. The mine had previously been expected to commence operation in early 2008 with a gradual ramp up in production to a level of 18 million pounds U<sub>3</sub>O<sub>8</sub> per year. The incident is the second time a flood has led to a delay in Cigar Lake's construction. A previous flood that occurred on April 5 led Cameco to state that production would be delayed until at least late 2007 (*Ux Weekly*, April 10, 2006, page 5).

In a second press release on the same day, Cameco stated that it was unable to contain the flooding due to a leaking seal on one of the two bulkhead doors it had closed to contain the flow of water (see figure on page 3). Attempts

## Industry Calendar

- October 22-25, 2006  
**NEI Uranium Fuel Seminar**  
Nuclear Energy Institute  
<http://member.nei.org/>  
Fairmont Le Château Frontenac  
Québec City, Canada
- December 4-8, 2006  
**Sustaining the Boom**  
Northwest Mining Association  
<http://www.nwma.org/>  
John Ascuaga's Nugget Casino  
Reno, NV, USA
- January 25, 2007  
**NEI Fuel Supply Forum**  
Nuclear Energy Institute  
<http://member.nei.org/>  
The Willard InterContinental  
Washington, D.C., USA
- February 8-9, 2007  
**3<sup>rd</sup> Annual Nuclear Energy**  
Platts  
<http://www.platts.com/>  
Omni Shoreham Hotel  
Washington, D.C., USA
- April 17-20, 2007  
**World Nuclear Fuel Cycle Conf.**  
World Nuclear Association  
<http://www.world-nuclear.org/>  
Nuclear Energy Institute  
<http://member.nei.org/>  
Hilton Budapest  
Budapest, Hungary
- May 23-25, 2007  
**Nuclear Energy Assembly**  
Nuclear Energy Institute  
<http://member.nei.org/>  
The Fairmont at Turnberry Isle  
Miami, FL, USA
- June 3-5, 2007  
**WNFM 33<sup>rd</sup> Annual Meeting**  
World Nuclear Fuel Market  
<http://www.wnfm.com/>  
Hotel Grande Bretagne  
Athens, Greece

Details are available at:  
<http://www.uxc.com/c/data-industry/uxc-calendar.aspx>

to fix the seal were unsuccessful, and once water volume exceeded pumping capacity, the decision was made to allow the mine to flood. All employees were safely evacuated, and there were no reports of serious injuries. At the same time that the decision was made to allow the mine to flood, Cameco requested that all trading of the company's stocks

be halted for about two hours.

Regarding the length of delay due to the flooding, the second press release stated, "Cameco will now investigate options to restore access to the mine. Production startup was previously planned for early 2008 and we will assess a new production timetable after remediation plans are developed." Cameco expects capital costs to increase, but as to the specific amount that costs will go up, Cameco CEO Jerry Grandey stated during a conference call that at the current time there is "no estimate not even an educated guess – we'll be looking at it in a little while." Cameco does not expect reserves to decrease as a result of the flood. Reflecting that modifications to the mining approach may be needed as a result of the flooding, Grandey stated, "I can't imagine that an alternative to mine this doesn't exist. We've got some very creative people."

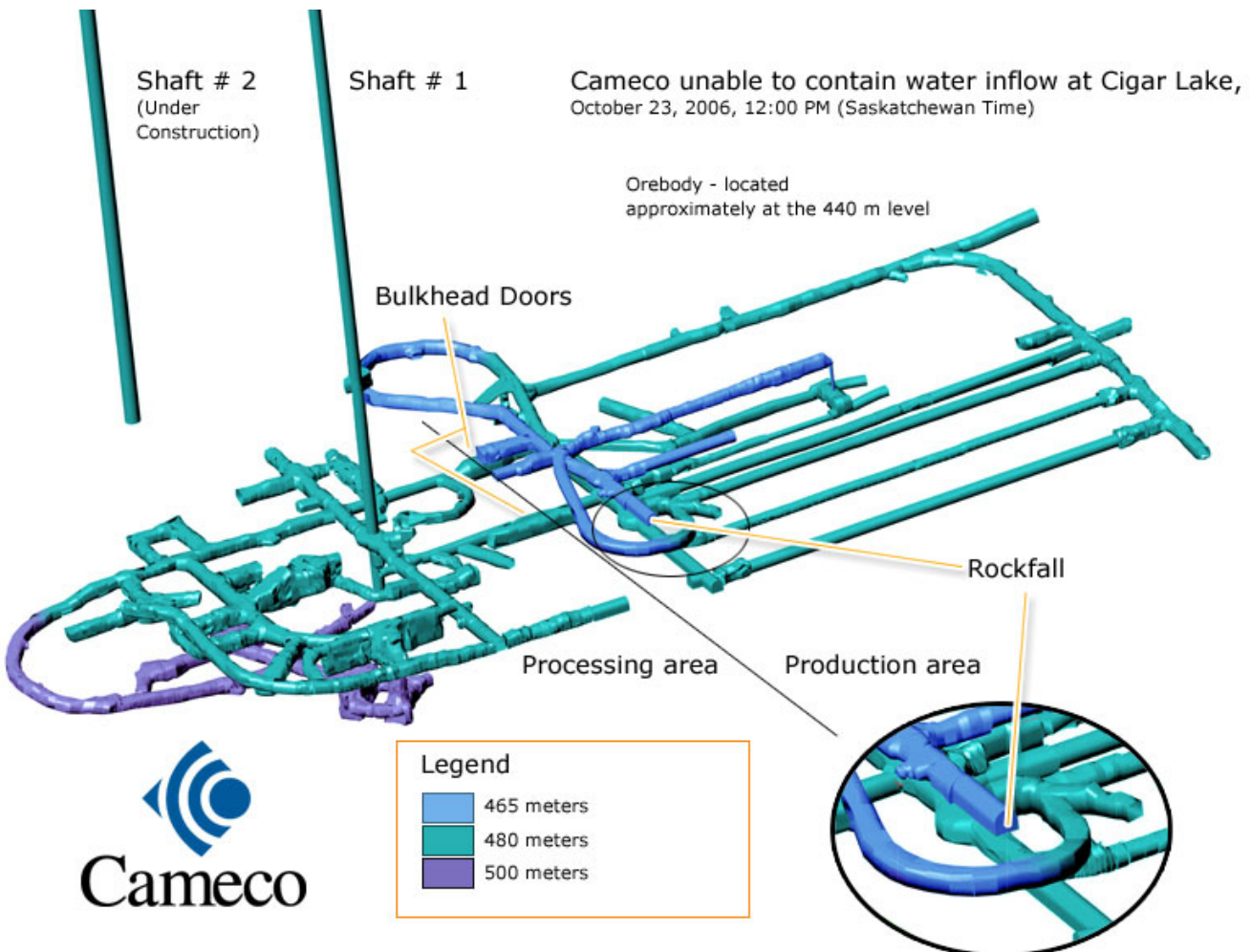
Also, when asked about the possibility of abandoning Cigar Lake, Grandey responded "that is not in the cards" especially considering "the immense value of the ore" at the site – Phase 1 of the project is estimated to produce a total of 230 million pounds of high-grade ore.

Cameco has stated that deliveries prior to 2008 will not be impacted due to the incident. According to the company's press release, its contracts have provisions for supply interruption including production specific to Cigar Lake as well as general supply interruption. These provisions give Cameco "the right to reduce, defer or cancel volumes on a pro-rata basis if we experience a meaningful shortfall in planned production." In order to make up for lost production from Cigar Lake, Grandey stated, "We'll be looking at opportunities to expand production at other sites." Grandey said that the company is investigating the

potential for extending the lifespan at Rabbit Lake and is encouraged by exploration results there. Drilling at Rabbit Lake will continue, and Cameco will address exploration at the site in its third quarter report, which is scheduled to be released after the market closes on October 31. In both conference calls of the day, Grandey repeatedly stated that the company will be reevaluating all supply and contractual options as well



One of the bulkhead doors at Cigar Lake could not be sealed. As a result, the underground development is being allowed to flood. *Courtesy: Cameco Corp.*



as working vigorously on Cigar Lake's remediation.

### **Toshiba, Shaw and IHH complete Westinghouse purchase**

Toshiba has completed its acquisition of a 77 percent stake in Westinghouse, according to an October 17 Toshiba press release. Toshiba established two holding companies, one in the U.S. and one in the UK, in order to complete the purchase. The company had previously expected to acquire a share in Westinghouse of just over 50 percent but found it necessary to raise its stake after Japanese trading firm Marubeni Corp. de-

ecided not to acquire a minority share.

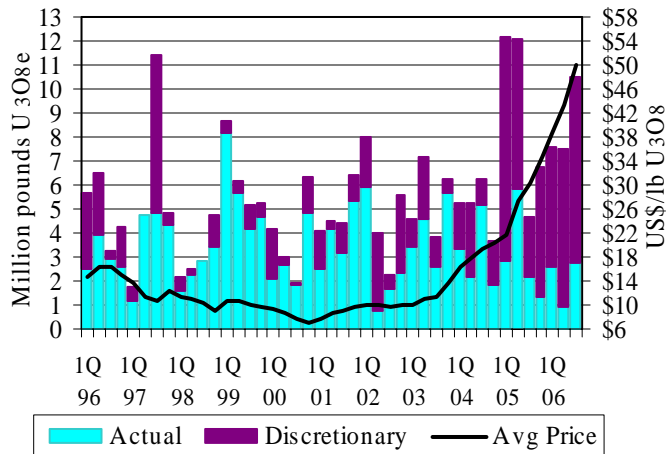
In the press release, Toshiba stated, "The powerful combination of Toshiba and Westinghouse's respective strengths, complementary technologies and business, will position Toshiba as the world's leading nuclear power group, with an unrivaled business range extending to both BWR and PWR systems." The Shaw Group has also completed its 20 percent acquisition in the company, and Ishikawajima-Harima Heavy Industries has purchased the remaining three percent. In a Shaw press release, the company's CEO, J.M. Bernhard Jr., stated, "With this transac-

tion Shaw now holds a stake in every aspect of the nuclear power business. As I stated two years ago before the U.S. Senate Subcommittee on Energy, we believe that nuclear-powered electricity generation will be critical to address-

ing the world's energy needs in the 21<sup>st</sup> century."  
 The cost of acquiring Westinghouse was US\$5.4 billion including \$4.16 billion for Toshiba's stake, \$1.08 billion for Shaw's stake, and \$162 million for Ishikawajima-Harima's share. Westinghouse's headquarters will remain in Pennsylvania, and the company will retain operational autonomy with current CEO Steve Tritch remaining in his position. Westinghouse's board of directors will include three members from Westinghouse and four from Toshiba. By 2015, Toshiba hopes to expand its nuclear power sales from the current level of 200 billion yen (US\$1.68 billion) to 700 billion yen (US\$5.88 billion). In order to finance the acquisition and fund other investment priorities, Toshiba intends to issue 400 billion yen in corporate bonds by the end of 2006.

In addition to the reactor business, the acquisition of Westinghouse includes a contract from the UK's Nuclear Decommissioning Authority to manage and operate the Springfields conversion plant. Toshiba has released a statement calling Springfields a "valued element" of Westinghouse's portfolio.

### **Quarterly Spot Volume vs. Ux Average Price**



### **Uranium Spot Market Statistics**

(Million pounds U<sub>3</sub>O<sub>8</sub> equivalent)

	2003					2004					2005					2006					
	1Q	2Q	3Q	4Q	Yr.	1Q	2Q	3Q	4Q	Yr.	1Q	2Q	3Q	4Q	Yr.	1Q	2Q	3Q	4Q	Yr.	
<b>Total Volume</b>	4.5	7.2	3.8	6.2	21.7	5.3	5.2	6.2	3.7	20.4	12.2	12.1	4.7	6.8	35.7	7.6	7.5	10.5	0.0	25.6	
# Transactions	11	24	12	22	69	22	17	21	11	71	36	34	15	25	110	30	29	37	0	96	
Leadtime (mths)	3.9	5.0	3.8	7.9	5.5	5.7	5.6	5.4	2.3	5.1	5.4	4.6	4.4	2.9	4.4	3.3	3.8	3.7	0	3.6	
<b>Form</b>																					
U <sub>3</sub> O <sub>8</sub> Total	2.9	4.4	3.8	4.0	15.2	3.3	2.0	3.1	1.0	9.3	5.6	7.7	2.0	5.1	20.4	2.8	3.8	5.3	0.0	11.9	
UF <sub>6</sub> Total	1.6	2.7	0	2.2	6.5	2.0	3.3	3.1	2.7	11.0	6.2	4.4	2.6	1.6	14.8	4.3	3.5	5.2	0.0	12.9	
EUP Total	0.1	0	0	0	0.1	0	0	0	0	0	0.3	0.0	0.0	0.1	0.5	0.4	0.3	0.1	0.0	0.8	
<b>Need</b>																					
Actual	3.4	4.6	2.6	5.7	16.3	3.3	2.1	5.2	1.8	12.5	2.8	5.9	2.2	1.3	12.2	2.6	0.9	2.7	0.0	6.2	
Discretionary	1.1	2.6	1.3	0.5	5.5	1.9	3.1	1.0	1.8	7.9	9.3	6.2	2.5	5.4	23.4	5.0	6.6	7.8	0.0	19.4	
<b>Method</b>																					
On-market	3.9	3.5	2.8	2.0	10.2	0.8	0.7	0.8	0	2.2	0.8	4.5	0.6	0.9	6.9	1.6	0.9	2.9	0.0	5.4	
Off-market	0.6	3.7	1.0	4.2	9.5	4.5	4.6	5.4	3.7	18.2	11.4	7.6	4.0	5.8	28.8	6.0	6.6	7.6	0.0	20.2	
<b>Buyers</b>																					
U.S.	2.3	2.2	1.3	4.5	10.2	2.2	4.5	3.0	0.9	10.6	5.9	1.7	1.2	1.7	10.5	2.8	3.0	3.2	0.0	9.1	
Non-U.S.	2.3	5.0	2.5	1.8	11.5	3.1	0.7	3.2	2.8	9.8	6.3	10.3	3.5	5.0	25.1	4.7	4.5	7.3	0.0	16.5	
<b>Sellers</b>																					
U.S.	0.6	1.5	0	1.3	3.3	1.1	0.7	1.9	0.9	4.6	4.1	2.1	2.0	2.8	11.0	2.4	2.4	4.5	0.0	9.2	
Non-U.S.	3.9	5.7	3.8	5.0	18.4	4.2	4.5	4.4	2.7	15.7	8.1	10.0	2.6	4.0	24.7	5.2	5.0	6.1	0.0	16.3	

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## **AREVA and Mitsubishi Heavy Industries sign nuclear cooperation agreement**

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In a joint press release published on October 19, French nuclear fuel cycle giant AREVA and Japan's Mitsubishi Heavy Industries (MHI) announced that they had signed a memorandum of understanding for nuclear power cooperation. The companies will cooperate to design and develop a third-generation reactor with a capacity of 1,000 megawatts and could also cooperate in other areas including procurement, services, the fuel cycle, and the possible development of additional new reactor types. "We are going to put together what we have already done and take the best from each side to sell together," said AREVA CEO Anne Lauvergeon in a quote to *AFX News*.

MHI and AREVA believe that their new 1,000 megawatt reactor will "attract great market demand" and Lauvergeon perceives it as "exactly the fit for the American market." The companies estimate that development of the reactor will take ten years and predict that it will reduce spent fuel generation by about 15 percent compared to existing third generation reactor designs. "We at MHI are all excited about this collaboration with AREVA. It will enable [us] to provide the nuclear power plant technologies and experience accumulated by the two companies around the world in nuclear power generation. The alliance between AREVA and MHI, both highly acclaimed companies in the nuclear energy industry, is a very natural consequence for us," said MHI President Kazuo Tsukuda. AREVA and MHI have collaborated in the past, in projects that include the construction of Japan's Rokkasho spent fuel reprocessing plant.

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## **British Energy hit by steep output drop**

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British Energy, which has already been plagued by 2.3 TWh of lost production during the quarter ended June 2, is now facing additional outages due to boiler

cracking discovered at reactors at the Hunterston B and Hinkley Point nuclear power plants. On October 16, the utility released a statement saying that output and Hunterston B's Unit 2 and Hinkley Point B's Unit 2 was lowered and preparations were being made to take both units offline for inspections and repair. The reactors could be forced to remain offline for several months, and the company has said that it is unable to determine when the units will be able to resume normal operation, although the company is also looking into the possibility of operating the reactors at reduced capacity during the time before repairs are to be made as Unit 1 at Hinkley Point also requires maintenance. The company does not believe it will be able to repair all three reactors simultaneously.

Hunterston B and Hinkley Point B are both currently licensed to operate until 2011. The problems at the plants could threaten license extension efforts since a decision on whether the plants' lifespans can be extended must be made by the end of 2007.

Only one of the company's eight nuclear power plants is operating normally, with others either in need of repairs, operating at reduced capacity, or offline. The company's most modern nuclear power plant, Sizewell B, which has a sole 1,188 megawatt reactor, is currently offline for refueling, but is expected to return to service soon. The Hartlepool nuclear power plant's two 605 megawatt reactors are currently offline while a cooling system leak is being investigated, and both are expected to resume operation in November. Minor repair work is now underway at Heysham 2, while one of two units at Heysham 1 is currently operating at reduced capacity. Both Dungeness B units have fuel assembly component issues that will likely require an extended refueling outage to begin later this fiscal year. Torness, which has two 700 megawatt advanced gas cooled reactors, is currently the utility's only nuclear power plant that is

operating at full capacity.

The British government has expressed interest in selling its 65 percent stake in British Energy, but the sell-off has now been called into question due to the output problems. According to an October 17 article from the *Telegraph*, British Energy's share price declined by as much as 25 percent in reaction to news of the output disruptions, but the company's stock has since recovered somewhat from this drop after some brokers said the stock's decline was an overreaction.

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## **North Carolina AG opposes rate increase over nuclear planning costs**

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The Attorney General for North Carolina has come out in opposition to a proposal from Duke Energy that would allow the utility to raise rates in order to recoup planning and licensing costs for a potential new two-reactor nuclear power plant, according to articles from the *Raleigh News & Observer* and the *Associated Press*. In a filing, the office of Attorney General Roy Cooper stated, "Such a ruling would seem to create an open-ended, preapproved nuclear development expense account." The filing also points out that North Carolina would not be able to hold hearings to assess the economics and need for a new plant since the plant would be located in South Carolina. The consumer advocacy division of the state's Utilities Commission's also opposes Duke's request due to the possibility that the plant might not be built.

Duke Energy said that costs for the planning and licensing of the nuclear power plant are expected to reach \$125 million. The Attorney General said that North Carolina's current law only allows utilities to recoup planning costs for power plants if the plants are actually built. Although the plant would be built in Cherokee County, South Carolina, Duke said most of its electricity would be used in North Carolina, and it wants two-thirds of the costs paid by North Carolina

ratepayers with the other third paid by South Carolina ratepayers. The utility's request does not specify an amount that it wants rates to go up but instead asks for the right to request a specific increase at a later date. Duke argues that it needs protection due to the expensive and high risk regulatory process for new reactors and said that it will take its case to the state legislature if it is rejected by the Utilities Commission. Progress Energy also plans to seek approval from the North Carolina Utilities Commission for a rate increase to recover \$60 million in development costs for a potential new reactor at its Shearon Harris nuclear power plant.

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### ***Palisades nears approval for license extension***

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On October 23, the U.S. Nuclear Regulatory Commission announced the release of an Environmental Impact Statement for the Palisades nuclear power plant's license renewal application. The statement concludes that there is no environmental justification to deny a license extension. Palisades is currently licensed to operate until 2011, and if the NRC grants final approval for license renewal, the plant, which has a single 789 megawatt pressurized water reactor, will be able to operate until 2031.

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### ***Pakistan selects sites for six Chinese-designed nuclear plants***

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Ahead of Chinese President Hu Jintao's visit next month, the Pakistan Atomic Energy Commission (PAEC) has selected six sites for up to six Chinese-designed 300-megawatt nuclear power plants in line with the recommendations of the Pakistan Nuclear Regulatory Authority (PNRA) and the International Atomic Energy Agency (IAEA), said the *Hindustan Times*. The new plants are part of a plan to increase Pakistan's nuclear generation capacity to 8,800 MWe by 2030.

The six sites include Qadirabad-

Bulloki link canal near Qadirabad headworks, Dera Ghazi Khan canal near Taunsa Barrage, Taunsa-Punjad canal near Multan, Nara canal near Sukkur, Pat Feeder canal near Guddu and the Kabul River near Nowshera. Pakistan currently operates one Chinese-designed nuclear reactor at Chashma in Punjab. While this 350 MWe reactor is operational, its twin Chashma-2 is under construction. Additionally, Pakistan is operating one small (125 MWe) Canadian PHWR near Karachi.

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### ***Rio Tinto releases 3rd Qtr operations review***

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On October 18, Rio Tinto released its third quarter 2006 operations review, with ERA's Ranger mine and Rössing Uranium Ltd. combining for production of 1,962 t U<sub>3</sub>O<sub>8</sub> (~4.33 million pounds U<sub>3</sub>O<sub>8</sub>). ERA's Ranger mine in Australia yielded 1,097 t U<sub>3</sub>O<sub>8</sub> (~2.42 million pounds U<sub>3</sub>O<sub>8</sub>) in the third quarter and 3,019 t U<sub>3</sub>O<sub>8</sub> (~6.66 million pounds U<sub>3</sub>O<sub>8</sub>) for the nine months in 2006. Meanwhile, the Rössing mine in Namibia produced 865 t U<sub>3</sub>O<sub>8</sub> (~1.91 million pounds U<sub>3</sub>O<sub>8</sub>) in the third quarter and 2,625 t U<sub>3</sub>O<sub>8</sub> (~5.79 million pounds U<sub>3</sub>O<sub>8</sub>) for the nine months in 2006.

In its operations review, Rio Tinto stated, "Production at the Ranger mine recovered from the heavy rainfall and throughput issues experienced in the second quarter of 2006, contributing to a 35% increase in uranium production in the quarter. Production at Rössing was in line with the previous quarter." Rio Tinto holds a 68.4% interest in the ERA's Ranger mine and a 68.6% interest in Rössing Uranium Ltd. Rio Tinto Uranium (RTU) is the marketing agent for both companies.

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### ***ERA's Ranger production up in 3<sup>rd</sup> Qtr, new find could extend life***

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Energy Resources of Australia Ltd (ERA) released its third quarter operations review on October 18<sup>th</sup>. Uranium production from Ranger totaled 1,103 t

U<sub>3</sub>O<sub>8</sub> (~2.43 million pounds U<sub>3</sub>O<sub>8</sub>) in the third quarter, up 85% from 596 t U<sub>3</sub>O<sub>8</sub> (~1.31 million pounds U<sub>3</sub>O<sub>8</sub>) in the second quarter of 2006 and 7% higher than the corresponding quarter in 2005. Mill head grade was 30% lower than the corresponding quarter in 2005, but it was 5% higher than that processed in the second quarter of 2006. The lower mill head grade was due to the elevated water level in the pit resulting from the unusually high rainfall throughout the wet season. As ERA previously advised, the elevated water level prevented access to high grade ore earlier in the quarter, but the water has been successfully drawn down and mining is now focused in areas of higher ore grade. ERA also said it is assessing options to increase acid supplies at the Ranger operation, as mine production has risen beyond the capacity of the acid plant. Options include upgrading the plant or trucking in more acid from Xstrata's Mount Isa operations in Queensland.

Meanwhile, ERA's efforts to extend the life of the Ranger mine appear to be paying off given encouraging drill results. Currently, Ranger is expected to exhaust its ore by the end of 2008, leaving it to only treat stockpiled ore through around 2013/14. The company's efforts to secure future long-term supply from the nearby Jabiluka deposit have thus far been vetoed by the traditional owners, leaving its future somewhat uncertain.

To date, drilling to the east of the Ranger pit has yielded significant intersections grading above 0.4% U<sub>3</sub>O<sub>8</sub> about 150 meters to 250 meters below ground, in line with high-grade ore areas in the current pit. The company is now investigating whether the pit can be extended by as much as 300 meters to the southeast, which would put the pit close up against the operation's facilities.

Even more enticing are some high-grade results from deep drilling further to the southeast, raising the possibility of future underground mine development. One drill intersected 17 meters of 0.7%

U<sub>3</sub>O<sub>8</sub> just over 500 meters below ground. "Considerable more drilling will be required to determine whether the mineralization will be economic, as it is probable that it will have to be accessed by underground methods," ERA's press release stated. ERA is now considering extending the drilling campaign into the wet season, which started this month and extends into April of next year.

### Russian & Australian officials hold talks on uranium

Russian and Australian government officials were reportedly in talks last week regarding the potential sale of Australian uranium to Russia. Tenex executives and other Russian nuclear agencies met with officials from the Australian Safeguards and Non-Proliferation Office and a Government taskforce on nuclear energy. The lack of an export agreement between Australia and Russia has barred Australian uranium producers from having their customers' material converted and enriched to nuclear fuel in Russia. Tenex said it is seeking new uranium to help fuel new reactors that it plans to build by 2015, as well as supplying its customers in Europe, Japan and South Korea.

Meanwhile, Australian Greens senator Christine Milne, has harshly criticized the Australian government for not more publicly explaining the details of an alleged deal. "What is clearly happening is that whilst the prime minister is talking up nuclear power in Australia, behind the scenes his real agenda is being enacted and that is increasing uranium mining and exports and uranium enrichment," the senator stated. In parliament, Finance Minister Nick Minchin did not confirm nor deny Senator Milne's claims. "We only export to those countries who are signatories to the Nuclear Non-Proliferation Treaty and those countries by which we have bilateral safeguard agreements," he said. "Australia has probably the strictest standards with respect to the export of uranium of any uranium exporting country in the world,"

added Minchin.

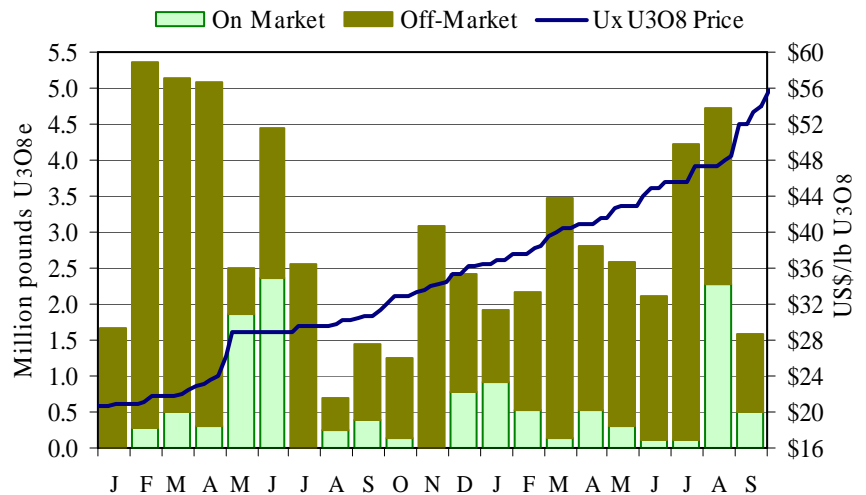
### Uranium Energy Corp. denied water well permit at Goliad

Last Tuesday, the Goliad County Groundwater Conservation District dealt a setback to Uranium Energy Corp. (UEC) by denying a permit to operate a water well on its leased Goliad property. UEC chief operating officer Harry Anthony said he was not told about the public hearing on the permit request. In an interview with the *Victoria Advocate*,

Anthony said, "The county is trying to kill it, shut us down. It is being discriminatory. They don't have all the information. I suppose there is an appeals process. They just can't pull the plug."

UEC began drilling operations in mid-May about 15 miles north of Goliad, Texas. UEC has leased about 2,000 acres in the area. Last month, the company confirmed the presence of 5.2 million pounds U<sub>3</sub>O<sub>8</sub> at the project through a confirmatory drilling program.

Ux U<sub>3</sub>O<sub>8</sub> Price vs. Monthly Spot Volume by Method



### Ux Price Indicator Definitions

The Ux Prices indicate, subject to the terms listed, the most competitive offers available for the respective product or service of which The Ux Consulting Company, LLC (UxC) is aware. The **Ux U<sub>3</sub>O<sub>8</sub> Price (Spot)** includes conditions for delivery timeframe (≤ 6 months), quantity (100-300,000 pounds), and origin considerations, and is published weekly. The **Ux LT U<sub>3</sub>O<sub>8</sub> Price (Long-Term)** includes conditions for escalation (from current quarter), delivery timeframe (≥ 24 months), and quantity flexibility (up to ±10%) considerations. The **Ux Conversion Prices** consider offers for delivery up to twelve months forward (Spot) and base-escalated long-term offers (LT) for multi-annual deliveries with delivery in North America (NA) or Europe (EU). The **Ux NA UF<sub>6</sub> Price** includes conditions for delivery timeframe (6 months), quantity (50-150,000 kgU), and delivery considerations. \*The **Ux NA and EU UF<sub>6</sub> Values** represent the sum of the component conversion and U<sub>3</sub>O<sub>8</sub> (multiplied by 2.61285) spot prices as discussed above and, therefore, do not necessarily represent the most competitive UF<sub>6</sub> spot offers available. The **Ux SWU Price (Spot)** considers spot offers for deliveries up to twelve months forward for other than Russian-origin SWU. The **Ux LT SWU Price (Long-Term)** reflects base-escalated long-term offers for multi-annual deliveries. All prices, except for the weekly Ux U<sub>3</sub>O<sub>8</sub> Price, are published the last Monday of each month. (Units: U<sub>3</sub>O<sub>8</sub> = US\$ per pound, Conversion/UF<sub>6</sub>: US\$ per kgU, SWU: US\$ per SWU) The Ux Prices represent neither an offer to sell nor a bid to buy the products or services listed. \*\*The Euro price equivalents are based on exchange rate estimates at the time of publication and are for comparison purposes only.

The NuclearFuel and RWE NUKEM prices belong to their respective companies and are published with permission. Definitions of these prices are available from their original source.

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### ***Energy Metals receives NI 43-101 on Jab uranium project***

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Energy Metals announced October 13 that it received a National Instrument (NI) 43-101 technical report related to uranium mineral resources at its Jab uranium project located in the northern portion of the Great Divide Basin in Sweetwater County, Wyoming. The report contains a measured mineral resource estimate of 3.23 million pounds  $U_3O_8$  at an average grade of 0.073%. An additional indicated mineral resource estimate of 325,102 pounds  $U_3O_8$  at an average grade of 0.07% was calculated. Both the measured and indicated mineral resources contained in the report were determined using 0.25 GT (grade thickness product) cut-off.

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### ***Anglo Canadian acquires uranium/vanadium claims in Colorado***

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Anglo Canadian Uranium Corp. reported October 17 that it entered into an option agreement for the acquisition of a 100% interest in 81 claims located on Wedding Bell Mountain on the Colorado Plateau area of the Uravan Mineral Belt. The claims, known as the Tomcat claims, are located in San Miguel County, Colorado.

The claims include a number of former producing mines including the Jackknife, Groundhog, and Bachelor mines. Other mines in the area include the Edna May, Rimrock, Rimrock #3, Babe Ruth, the Mexico mines, and a number of smaller mining operations. Previous exploration on the claims included drilling programs at the Jackknife and Groundhog mines in the 1970s prior to the cessation of mining in the area. Grades reported from these historical drill programs indicate 0.16% to 0.25%  $U_3O_8$ , and averaging 1.25% vanadium.

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### ***Mega Uranium intends to use compulsory acquisition for remaining shares in Redport***

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On October 23, Mega Uranium Ltd. announced that through a subsidiary it has acquired over 90 percent of Redport

Limited. After the takeover offer period expires, Mega Uranium will move to undertake compulsory acquisition of remaining shares in the company. Redport's main asset is the Lake Maitland uranium property in Western Australia, which has an NI 43-101 compliant inferred mineral resource of 23.7 million pounds  $U_3O_8$ . Redport also has shares in other Australian uranium properties and a royalty stake in the Langer Heinrich uranium mine.

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### ***Forsys to divest itself of non-uranium assets***

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Forsys Metals Corp. has stated that it plans to divest itself of all non-uranium assets in order to concentrate on bringing its Valencia uranium property in Namibia to a mid-stage development level and to pursue other uranium opportunities. Subject to regulatory approval, Forsys will use a special dividend to spin off its non-uranium subsidiary, 1400596 Ontario Ltd., to shareholders.

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### ***UNOR enters option agreement with Cameco for uranium property in Nunavut***

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In an October 23 press release, UNOR Inc. announced that it had reached an agreement with Cameco that gives it the option to acquire a 60 percent stake in a uranium property covering 521,500 acres with 190 mineral claims in the western region of Canada's Nunavut territory. In order to acquire the 60 percent stake, UNOR must spend C\$3 million on exploration and development for the property by March 31, 2010, including C\$2 million by June 30, 2008. UNOR will be the project's operator subject to the agreement and to oversight from a joint technical committee formed by the two companies.

Once UNOR acquires the 60 percent stake, the two companies would then create a joint venture. Subject to certain conditions, Cameco will later have the right to re-acquire 15 percent of the property, through the investment of an additional C\$3 million. This option,

which if exercised would then reduce UNOR's stake to 45 percent, will be available to Cameco for 90 days after the joint venture has either operated for at least two years or incurred total expenses of C\$3 million, whichever comes first.

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### ***Laramide announces release of NI 43-101 report for uranium property in Queensland***

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In an October 23 press release, Laramide Resources announced that a National Instrument 43-101 technical report has been completed by Mining Associates of Australia for the Laramide's Westmoreland uranium property in Queensland, Australia. The report estimates the property's indicated mineral resources at 15.6 million pounds  $U_3O_8$  contained in 8 million tons of ore at an average grade of 0.088 percent  $U_3O_8$ . The report also estimates the presence of an additional 32.9 million pounds  $U_3O_8$  of inferred mineral resources contained in 16 million tons of ore for an average grade of 0.093 percent  $U_3O_8$ . All of the mineralization is present in flat and steep lying zones above a depth of 60 meters, and a large portion of the mineralization has a depth of above 20 meters. In the report, Mining Associates says, "The resource estimates are suitable for use in the mine design process for an open pit operation." To reach the resource calculations, 1,339 drill holes with 84,876 meters of drilling were used. The press release states, "With further drilling during 2007, it is anticipated that much of the Inferred Resource will be upgraded to the Indicated Category." As there are still additional portions of the mineralized structure to be explored, there is significant potential to expand the existing resource envelope as well as 36 additional mineralized zones within the Westmoreland area.

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### ***Kaminak & Pacific Ridge report drill results at Baker Lake***

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Kaminak Gold Corporation (Kaminak) and partner Pacific Ridge Exploration Ltd. reported October 18 that three of



four holes drilled at their Baker Lake uranium project intersected significant near-surface uranium over wide intervals. The best results were 0.31% U<sub>3</sub>O<sub>8</sub> over 11.5 meters and 0.27% U<sub>3</sub>O<sub>8</sub> over 5.8 meters in the KZ zone.

The KZ zone has been defined by a radiometric survey to be over 1 km long. Historic drilling along approximately 350 m of the 1 km target zone saw several holes with uranium values of 0.84% U<sub>3</sub>O<sub>8</sub> over 5.4 m at depths less than 100 m from surface. Kaminak has also identified a new zone, dubbed 7-one, of uranium-mineralized boulders 4 km away from the Lucky 7 zone discovered in August. Boulders from this zone have averaged 1.29% U<sub>3</sub>O<sub>8</sub>.

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### ***Omega plans opening uranium mine in Zambia***

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Omega Corporation Ltd. has expressed interest in starting up a uranium mine in Siavonga, Zambia's southern province, with an investment of US\$60 million. According to managing director Matthew Yates, uranium deposits have been detected in the Muntanga and Dibwii areas of Siavonga. He said the exploration project began in June 2006 and is expected to end in July 2007. Project manager David Dodd said Omega intends to start construction on the uranium mine between July 2007 and October 2008 when the government issues a mining operating license, for which an application has already been submitted. Production from the mine could commence in October 2008 and end in 2015 after a seven-year operating period.

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### ***New poll finds U.S. public opinion of nuclear power remains high***

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The Nuclear Energy Institute (NEI) has again released public opinion data from recent polling done by Bisconti Research and GfK NOP on the current level of support for nuclear power in the United States. The national poll of around 1,000 people was done in September and found that overall 68 percent of

respondents favor nuclear energy. In addition, support was very high for license renewal of current plants (83 percent), while 65 percent said they view nuclear reactors as safe and secure.

As for new nuclear power plant development, 75 percent said that the U.S. should keep the option to build more nuclear plants, while 76 percent agree that electric utilities should prepare now so that new plants could be built if needed in the next decade. Sixty-three percent favor definitely building in the future, while 68 percent would accept a new reactor at the nearest plant site to where they live. Download the report at: [http://www.nei.org/documents/PublicOpinion\\_0906.pdf](http://www.nei.org/documents/PublicOpinion_0906.pdf)

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### ***U.S. and Russian National Academies study internationalizing the nuclear fuel cycle***

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Last week, the U.S. National Academies (NAS) and the Russian Academy of Sciences (RAS) held a kick-off meeting in Washington, D.C., to begin a nearly two year joint project to analyze and come up with a set of consensus findings and recommendations on how to achieve an international fuel cycle that would be beneficial for suppliers and consumers and at the same time support international nonproliferation objectives.

The project, which has received added impetus from various high-level U.S. and Russian government statements to work together on international nuclear energy and nonproliferation issues, aims primarily to provide a broad assessment of the technical, economic, legal, regulatory, and nonproliferation criteria necessary to create a system that handles both front-end (i.e. enrichment and fuel supplies) as well as back-end (i.e. spent fuel take-back) aspects. For example, some of the questions the committee hopes to answer include:

- 1) Is it feasible and effective to establish international fuel supply centers as an incentive for countries not to develop indigenous enrichment facilities?

- 2) What are the advantages and disadvantages (if any) of establishing international centers for sending and receiving back fuel?
- 3) Who should own the nuclear material and the fuel in such arrangements?
- 4) Should the international facilities be owned by governments or could private companies own some or all of the facilities?

A final report from the panel will be issued some time at the end of 2007 or early 2008 and will be used to inform policymakers in the U.S., Russia and other nations as well as at the International Atomic Energy Agency (IAEA). The fourteen members of the joint committee include scientists and experts appointed by the NAS and RAS. See: <http://www8.nationalacademies.org/cp/projectview.aspx?key=48665>

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### ***Progressive Policy Institute supports new nuclear power***

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The Progressive Policy Institute (PPI) recently released a new "Progressive Energy Platform" in which it advocates the increased use of nuclear power in the United States. The energy platform focuses on strategies to wean the country from its "addiction to carbon-based fuels," which the institute describes as posing "a triple threat to national security, economic vitality, and environmental health."

PPI's energy platform states that "Nuclear power holds great potential to be an integral part of a diversified energy portfolio for America. It produces no greenhouse gas emissions, so it can help clean up the air and combat climate change. And new plant designs promise to produce power more safely and economically than first-generation facilities."

Bipartisan support for nuclear power is seen by many as crucial to sustaining the nuclear renaissance in the U.S. The full report can be downloaded at: [http://www.ppionline.org/ppi\\_ci.cfm?knlqA-realID=116&subsecid=155&contentid=254058](http://www.ppionline.org/ppi_ci.cfm?knlqA-realID=116&subsecid=155&contentid=254058)

# The Market

## Uranium

Bids were received last week by a non-U.S. trader that put up 100,000 kgU as UF<sub>6</sub> with European delivery in December. Also, late last week, a U.S. producer put up its next 100,000 pounds U<sub>3</sub>O<sub>8</sub> to the highest bidder with delivery in November and bids due October 26, the day after this week's NEI Uranium Seminar. One transaction is reported for the week and a number of buyers, including a non-U.S. utility seeking about 520,000 pounds U<sub>3</sub>O<sub>8</sub> equivalent, also remain active in the spot market, although most outstanding offers to sell are market-related. Expectations in the spot market are that prices remain under notable upward pressure, and given this week's announcement of further delays at Cigar Lake (see page 2), these upward pressures will be amplified. Also, buyers seeking straight U<sub>3</sub>O<sub>8</sub> are seeing limited supplies being made available and are turning to UF<sub>6</sub> in order to increase their chances of picking up material, in turn, putting pressure on UF<sub>6</sub>. Those sellers that would consider making fixed price offers are now taking a

wait-and-see approach to find out how the market reacts to this latest round of activity and announcements. As such, the Ux U<sub>3</sub>O<sub>8</sub> Price remains unchanged for the week at \$56.00 per pound.

In the term market, a non-U.S. utility is evaluating offers for almost ten million pounds with delivery in 2011-2017. Another non-U.S. utility remains evaluating offers for 2.8 million pounds with delivery in 2008-2015. A third non-U.S. utility is out for 2.7 million pounds U<sub>3</sub>O<sub>8</sub>e, potentially as EUP, with delivery in 2008-2012. A U.S. utility, which was out for 1.75 million pounds U<sub>3</sub>O<sub>8</sub>e with delivery in 2010-2014, has made its decision.

## Conversion & Enrichment

A non-U.S. utility is looking for 200,000 kgU as conversion services or UF<sub>6</sub> with delivery in June. A non-U.S. utility is evaluating offers for one million kgU of conversion contained in UF<sub>6</sub> or EUP with delivery in 2008-2012. A U.S. utility continues to evaluate offers for 4.2 million kgU as conversion services with delivery in 2009-2015. Several other buyers also continue to evaluate offers, and reports indicate that conversion prices have been under upward pres-

Ux Price Indicators (€Equiv**)			
<b>Weekly (10/23/06)</b> 1 US\$ = .79271€			
<b>Ux U<sub>3</sub>O<sub>8</sub> Price</b>	<b>\$56.00</b>	<b>€44.39</b>	
<b>Mth-end (9/25/06)</b> 1 US\$ = .78460€			
<b>U<sub>3</sub>O<sub>8</sub></b>	Spot	<b>\$54.00</b>	€42.37
	Long-Term	<b>\$54.00</b>	€42.37
<b>Conversion</b>	NA Spot	<b>\$11.50</b>	€9.02
	NA Term	<b>\$12.25</b>	€9.61
	EU Spot	<b>\$12.00</b>	€9.42
	EU Term	<b>\$13.50</b>	€10.59
<b>UF<sub>6</sub> Spot</b>	NA Price	<b>\$152.00</b>	€119.26
	NA Value*	<b>\$152.59</b>	€119.72
	EU Value*	<b>\$153.09</b>	€120.11
<b>SWU</b>	Spot	<b>\$131.00</b>	€102.78
	Long-Term	<b>\$135.00</b>	€105.92

sure as well, although not to the same extent as U<sub>3</sub>O<sub>8</sub> and SWU.

Enrichment prices also remain under upward pressure, with both spot and term offers being reported at increasing price levels. A non-U.S. utility is seeking 100,000 SWU in conjunction with its uranium components, with the enrichment services delivery in October. A U.S. utility is out for two million SWU with delivery in 2009-2016. Two non-U.S. utilities are evaluating offers, one for 630,000 SWU as EUP and the other for 1.5 million SWU with delivery in 2011-2017.

UxC Market Statistics				
Monthly (Oct)	Spot		Term	
	Volume	# Deals	Volume	# Deals
U <sub>3</sub> O <sub>8</sub> e (million lbs)	0.5	1	0	0
Conv. (thousand kgU)	0	0	0	0
SWU (thousand SWU)	0	0	1.3	1
2006 Y-T-D	Spot		Term	
	Volume	# Deals	Volume	# Deals
U <sub>3</sub> O <sub>8</sub> e (million lbs)	26.1	97	98.3	42
Conv. (thousand kgU)	5,329	46	>10,580	14
SWU (thousand SWU)	1,100	12	36,251	29

Key: N/A – Not available. W – Withheld due to client confidentiality.

## UxC Leading Price Indicators

Three-month forward looking price indicators, with publication delayed one month. Readings as of Sep 2006.

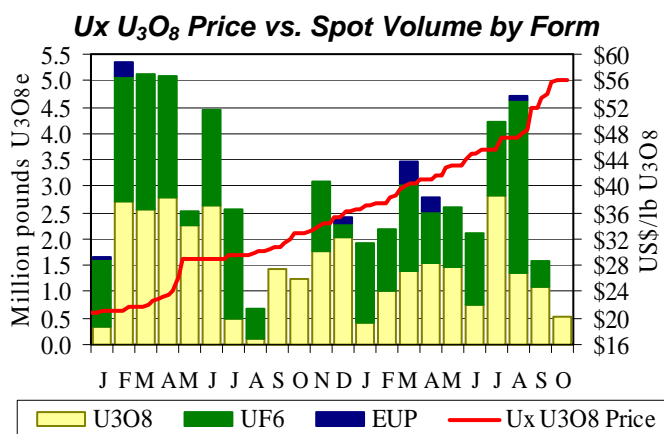
<b>Uranium</b> (Range: -17 to +17)	<b>+14</b> [up 1 point]
<b>Conversion</b> (Range: -16 to +16)	<b>+3</b> [up 1 point]
<b>Enrichment</b> (Range: -18 to +18)	<b>+11</b> [unchanged]

**NuclearFuel** Price Range - 10/23/06 (US\$/lb) **\$57.00-\$58.50**

**RWE NUKEM** Spot Uranium (US\$/lb U<sub>3</sub>O<sub>8</sub>) **\$54.00-\$55.50**

Price Ranges Spot Conversion (US\$/kgU) **\$11.25-\$11.50**

As of 9/30/06 Spot SWU (US\$/SWU) **\$114.00-\$125.00**



## Kidnapped

Most Friday nights at the Naval Station in Bermuda, we would assemble at the Officer's Club after work. One Friday, Rick, a newly married ensign, insisted he had to leave at 6 p.m. We all tried to talk him into staying, but he'd promised his bride he'd be home by six.

I offered to call home for Rick. When his wife answered the phone, I said, "Rick has been kidnapped. Put five dollars in small, unmarked bills in a plain brown paper bag and throw it in the door of the officers club." Then I hung up. A short time later, a waiter brought a grocery bag to our table. In it were Rick's baseball glove, a tennis racket and a teddy bear. Attached to the bear was a note: "Rick can play kidnapped until 7 p.m. Then he must come home."