

Junior firms face meltdown as investors run for cover after quake rattles Japan

Uranium and nuclear-focused companies were enjoying an industry revival until a natural disaster rocked Japan a week ago

By Joel McKay

While Japan rushed to prevent a nuclear catastrophe last week, executives in Vancouver grappled with fleeing shareholders as stock prices headed south.

"People are running for cover. They're converting to cash, and they're sitting on the sidelines waiting to see this play out," said **Anthony Dutton**, president and CEO of **IBC Advanced Alloys** (TSX-V:IB).

The rare-metal manufacturer was among a host of uranium and nuclear-focused companies whose share value plummeted last week as investors panicked while Japan reeled from a 9.0 earthquake and tsunami. IBC was one of the lucky ones. Its shares dropped only 9.6% to \$0.14 on Monday following the quake.

Vancouver-based **Hathor Exploration** (TSX-V:HAT), a uranium explorer saw its shares plummet 37% to \$1.78 in two days of trading.

Uranium One's (TSX:UUU) shares fell 37% to \$2.23, wiping out more than \$2 billion of market value in the space of a few hours.

The disaster prompted Saskatoon-based uranium giant **Cameco** (TSX:CCO) to schedule an emergency conference call with investors and media.

CEO **Gerald Grandey** said the sell-off was driven by emotion.

"We do not anticipate significant direct effects on Cameco's business in the short or long term," Grandey said on the call.

But **ARMZ**, Russian's state-owned mining giant, took a different view.

The company backed out of a \$1.2 billion deal last week to take over **Mantra Resources** (TSX:MRL), saying the situation in Japan would likely "have a material adverse effect on the financial position or prospects of Mantra."

The deal had a significant effect on Vancouver's Uranium One as well, which had teamed up with ARMZ to gain control of Mantra's Mkuju River uranium deposit. **Mike Gunning**



Hathor Exploration CEO Mike Gunning: an ongoing uranium supply shortage will continue to drive growth for the industry

believes Japan's nuclear disaster has scared enough people away from the market that junior companies might have a tough time raising capital in the near term.

"The biggest impact on this event, sadly, is that although the supply-demand fundamentals haven't changed for uranium, access to capital

"[People] are sitting on the sidelines waiting to see this play out"

- Anthony Dutton, president and CEO, IBC Advanced Alloys

has changed and that's a situation we're all going to have to grapple with," said Gunning, president and CEO of Hathor.

The sudden downturn comes at a time when the nuclear industry is enjoying a revival as governments around the world, notably China, view nuclear power as a cheap, emission-free electricity source.

Last year, uranium prices rose 37.6% to US\$62.50 per pound and continued climb-

ing right through February.

But last week spot prices dropped US\$6.50 to US\$60 in the wake of the disaster.

Environmental organizations such as **Greenpeace** didn't waste any time advancing their own agendas.

"Greenpeace is calling for the phase out of existing reactors around the world, and no construction of new commercial nuclear reactors," the organization said in a statement.

James Malone, chairman of Hathor and a retired vice-president of **Exelon Corp.** (NYSE:EXC), North America's largest nuclear power generator, said power producers and uranium miners need to promote the benefits of their industry to combat negative press.

But amid a market sell-off, positive news releases became somewhat of a double-edged sword. As media outlets around the world zeroed in on the disaster in Japan, the good news flowing out of companies in North America was largely forgotten.

IBC, for example, signed a major agreement with the U.S. military last week to develop lightweight beryllium components that could be

used to lighten payloads for unmanned aerial drones.

The news failed to boost the company's share value.

"This is enormous," Dutton said of the agreement. "This is a game-changer and it's not reflected in the activities in the market."

He conceded that it might have been wiser for the company to hold off on the news release until the investment environment changed, but he also believed there was no escaping the market's wrath.

"The whole market is red," he said. "If you look at most screens, it doesn't matter what you could be selling, chocolate or uranium, you're going to see pressure on your stock."

Last Tuesday, as the U.S. reaffirmed its commitment to nuclear power, the market regained somewhat, losing only 72.23 points following a 381-point plunge early in the day.

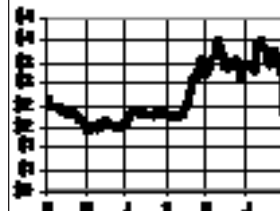
Edward Sterck, a London-based analyst with **BMO Capital Markets**, said stock prices would continue to react to headlines until Japan's reactors are stabilized.

He maintained a positive outlook for power producers and uranium miners though, noting that nuclear power is one of the few viable forms of low-carbon, base-load electricity generation.

"Utilities will delay spot purchases as long as possible in order to capitalize on near term negative sentiment," Sterck said. "In the long term, the nuclear industry will probably continue to grow." ■

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HATHOR EXPLORATION LTD. (TSX-V:HAT)



Vancouver
CEO: Mike Gunning
Employees: N/A
Market cap: \$193.4m
P/E ratio: N/A
EPS: (\$0.09)

SOURCES: STOCKWATCH, TSX

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