

# MINERALS

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## Hints of a Saskatchewan bonanza

IS DENISON MINES THE NEXT CANADIAN HIGH-GRADE URANIUM PRODUCER?

By KATHRYN BOOTHBY

Massive undeveloped deposits of uranium in the Athabasca Basin region could help secure Canada's role in meeting a growing global demand for energy by countries such as China and India.

Situated in northern Saskatchewan, the Athabasca Basin is the source of almost all of Canada's recent uranium production and home of the world's highest-grade uranium deposits. Higher grades help lower production costs and allow Canada to maintain its status as a primary global supplier of uranium.

"Canada, specifically Saskatchewan, has solidified its profile as a world-class uranium mining jurisdiction with deposits of exceptional grade and size," says Marin Katusa, fund manager and author of the New York Times bestseller *The Colder War*. "Uranium powerhouses such as Cameco, Areva, and Rio Tinto have all invested hundreds of millions of dollars into projects in the region over the past five years, which is a tribute to the stability, prospectivity and attractiveness of the jurisdiction."

Of the two largest deposits in the Basin currently in production, McArthur River has proven and probable reserves of 345 million pounds of uranium oxide (U3O8), while Cigar Lake has proven and probable reserves of 235 million pounds. Both projects are operated by Cameco Corp. and have grade levels of uranium that are about 100 times the world average.

In addition to these producing mines, there are at least five undeveloped projects in and around the Basin that carry significant resource estimates, including the Wheeler River project, in which exploration and development company Denison Mines Corp. (TSX: DML) has partnered with Cameco Corp. and holds a 60 per cent and controlling ownership. Cameco owns 30 per cent and a Japanese group holds the remaining 10 per cent.

"Denison has enjoyed significant exploration success at Wheeler River. The project has recently moved to the top of the heap in terms of pounds of uranium and average grade in the undeveloped group, with recent estimates increasing total resources significantly," says Katusa. The Gryphon deposit at Wheeler River has added an estimated inferred resource of 43 million pounds of U3O8 at a grade of 2.3 per cent to a property that already included an indicated resource of over 70 million pounds of U3O8, at the nearby Phoenix deposit, with a grade of over 19 per cent. Together, Gryphon and Phoenix (located within three kilometres of each other on the Wheeler River property) represent "one of the largest



PHOTO COURTESY OF DENISON MINES

Drill cores loaded in wooden containers at Denison's 60-per-cent-owned Wheeler River project in northern Saskatchewan.

undeveloped resources, at the highest grade, in the Athabasca Basin," adds Katusa.

Proximity to major mining infrastructure on the eastern side of the Basin will have a significant bearing on Denison's projects going forward, making development more economical, says company president and chief executive officer David Cates. He cites the provincial power line and highway that run through the Wheeler River property, and the existence of airstrips in the area, and says: "When the project gets developed, we could be on the grid with trucks on the highway and people on the ground without too much effort."

Denison is the only exploration and development company in the Basin with an ownership position in an operating uranium mill. The company has a 22.5 per cent stake in the McClean Lake Joint Venture, which includes the McClean Lake uranium mill and associated deposits, where Areva Resources Canada Inc. has a 70 per cent interest and is the joint venture operator. The mill is currently processing ore under a toll milling agreement from Cigar Lake, which is expected to eventually ramp up annual production to 18 million pounds of U3O8. Denison's share of toll milling revenues is expected to be greater than

\$6 million per year once full output is reached. Last week Cigar Lake announced that it has already achieved its recently increased 2015 production guidance of 10 million pounds of U3O8, which will further increase Denison's share of the toll milling revenue for the year.

The mill is currently undergoing upgrades, at no cost to Denison, which is expected to increase its capacity to roughly 24 million pounds of U3O8 per year. "This leaves ample excess capacity available to the joint venture partners, which could be a huge economic advantage when evaluating the Wheeler River project," says

that a project has the potential to become a viable mine in the future. "It is an important de-risking event that will detail the optimal development approach for the Phoenix and Gryphon deposits that are in close proximity," says Katusa. "Having an independent technical and economic outline for this concept will go a long way in demonstrating the potential of the project to the market."

If the PEA meets expectations, Cates believes Denison has the potential to become the next producer in the Athabasca Basin and a future global supplier of uranium oxide. "We have the people, the portfolio and access to the

Lake, Ont. Roughly 10 years ago, the company acquired interests in Zambia and Mongolia, and began investing heavily in assets in the United States. These moves preceded the global financial crisis in 2008 and the Fukushima nuclear incident in 2011. In 2012, Denison decided to refocus its business on the high-grade deposits in the Athabasca Basin and sold its U.S. mining business. This autumn, Denison also completed the sale of its Mongolian interests in a deal that could see Denison receive total proceeds of up to US\$13.25 million.

In addition to refocusing on Canada, Denison has made significant changes to its management team over the past two years. Recently, mining giant Lukas Lundin took the lead as its executive chairman and earlier this year Cates took over as president and chief executive officer. A new chief financial officer and vice-president of project development, along with a new head of exploration, have also been brought on board. "Our management team is relatively young, yet highly experienced. We're energized and committed to becoming the next uranium producer in the Athabasca basin, and advancing our pipeline of exploration projects," says Cates. With its 60 per cent owner-

ship in one of the largest and highest grade undeveloped uranium project in the Athabasca Basin, an interest in a fully permitted and operating uranium mill that is being upgraded and expected to have excess capacity, a portfolio of other promising exploration projects in one of the world's most prolific uranium districts, and the leadership of Lukas Lundin, Denison is uniquely positioned, says Katusa. "It is undervalued compared to historic trading and has a major de-risking event ahead of it, with the Wheeler PEA, which I expect to catalyze the stock."

"We have dynamic deposits that have the potential to generate future value for shareholders and toll milling revenues in the near term to protect us from the risks typically associated with junior mining stocks," adds Cates. "We're charting a path to become a Canadian uranium producer with a strategy that is designed to increase shareholder value along the way."

Since its beginnings in the 1940s, Canada's mining and exploration industry has produced more uranium than any other country in the world. Almost 85 per cent of current annual production is exported and the balance is used to fuel Canada's suite of CANDU reactors.

### DENISON HAS ENJOYED SIGNIFICANT EXPLORATION SUCCESS AT WHEELER RIVER

Katasa. "A processing facility is a major capital cost for developers with costs potentially into the mid \$1 billion range to build. I can't overstate the importance of having access to a mill that is fully permitted and operational."

Denison expects to release a preliminary economic assessment (PEA) for the Wheeler River Project during the first half of 2016. A PEA validates

resources necessary to bring these deposits to market, and we probably fit the bill better than any other non-producer right now," he says.

Denison is an interesting case. It is a well-known name in the Canadian mining business and has been a significant uranium producer before, with past production from its currently decommissioned uranium mine in Elliot

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