

Athabasca Basin EXPLORATION UPDATE

August.1.2010

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Uranium
Group Inc.

	June 30, 2010	July 31, 2010	Change
Ux Consulting's Spot Price	US\$41.75/lb U ₃ O ₈	US\$46.00/lb U ₃ O ₈	US \$4.25
Ux Consulting's Term Price	US\$58.00/lb U ₃ O ₈	US\$60.00/lb U ₃ O ₈	US \$2.00

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Industry Commentary

By Chris Frostad

India - Everyone's New Best Friend

Two years ago the United States, under former president George W. Bush, signed a landmark agreement allowing New Delhi access to civilian nuclear technology. Leveraging this new found nuclear friend, India has quickly re-established itself as one of the largest global customers of nuclear technologies and uranium. In 2009, on the heels of their US agreement, India went on to quickly establish civil nuclear accords with France, Russia, Namibia, Argentina and Mongolia. Over the last few weeks, we are now seeing India turn their attention to some of the more critical and difficult relationships.

On June 27 the Prime Ministers of Canada and India signed their long awaited civil nuclear agreement. The agreement provides for cooperation in “design, construction, maintenance, sharing of operating experience and decommissioning of nuclear reactors, supply of uranium, projects in third countries, nuclear fuel cycle and nuclear waste management”. Cameco and other Canadian companies have been developing relationships in India over the past few years in anticipation of this huge opportunity.

In May of this year India and Kazakhstan announced that their talks were in the final stage and that a civilian nuclear agreement would be signed “soon”. That signing would establish trade relationships with the two largest uranium producing countries in the world.

The third largest uranium producing nation (Australia) may not be as quick to shake hands. Australia has consistently stated that it would not supply India with uranium as long as it has not signed the Nuclear Non-Proliferation Treaty (NPT) although India has more formally requested “flexibility” as of late. At a meeting last month between India’s power minister and Australia’s foreign minister it was evident that Australia is, at least, considering some level of compromise to its policy.

Japan, like Australia, has refused to allow nuclear trade with India due to its absence from the NPT. In June, however, civil energy talks between the two countries resumed, culminating with the decision to set up a working group. The Japanese point to India’s contributions to nuclear disarmament and their relationship with the United States as an indication that nuclear cooperation can be achieved.

In July, India and South Korea will begin their negotiations towards an inter-governmental agreement on the peaceful uses of nuclear energy, a deal which would pave the way for Seoul’s export of atomic power plants.

Over the next 20 years India is expected to spend \$100 billion on the development of nuclear energy within the country. As many nations look to dominate this market we see a new found urgency to develop, negotiate and conclude nuclear trade agreements with this emerging powerhouse.



China Makes its Move

Last month Cameco announced that it had signed an agreement to supply China National Nuclear Corp. (CNNC) with approximately 23 million pounds of uranium over the next 10 years. Analysts are now including this move and others as signals that uranium prices are ready to rebound after three years of decline.

For Canada, Cameco's agreement with CNNC as well as their recent frame-work agreement with China Guangdong Nuclear Power Holding Co. Ltd. (CGNPC) represents evidence that China and Canada are finally remedying their nuclear trade agreement differences. For the uranium industry, however, it represents much more.

Analysts are suggesting that China may purchase approximately 5,000 metric tons of uranium this year, more than double its annual consumption. This stockpiling is prompting analysts to predict a 32-34% increase in uranium prices by next year.

RBC's analysts stated "The uranium bull market of 2006 and 2007 stimulated the development of new supply, but we don't think it is enough. The prevailing uranium price is too low to stimulate sufficient supply to cover future reactor requirements". On top of this, BMO noted that the cost of mining one pound of uranium is now about \$31, up from \$26 in 2007.

The most obvious beneficiaries of this increase will undoubtedly be Areva, Cameco, Paladin and Energy Resources whose shares prices have dropped 53%, 60%, 63% and 25% respectively over the past three years.

That increased price, though, is not just necessary to bring known resources into production. Most of the uranium fuel required to operate the nearly 500 reactors currently planned and proposed around the world has not yet been discovered. We expect to see a new wave of exploration focused investment taking place in the near term.

Namibia Increases Output

Two weeks ago, Paladin Energy Ltd. announced that it had doubled its uranium production in Q4 from a year ago, delivering 1.4 million pounds of U3O8 and closing the year with a total of 4.3 million pounds. What's more impressive, however, is their intention to move that number up to 7 million pounds during the 2011 year.

Construction of the stage 3 expansion at Paladin's Langer Heinrich uranium mine in Namibia is expected to be completed by the end of 2010 increasing its production from 3.7 million to 5.2 million pounds per year.

Namibia's total uranium production rose 4 percent in the second calendar quarter of 2010 over Q1. The other primary mine, Rio Tinto's Rossing mine, produced 1.4 million pounds between April and June compared to 1.3 million pounds during the first three months of the year.

Namibia is the world's fourth-largest uranium producer and Rio Tinto and Paladin's operations in that country account for 10 percent of global output.



In direct competition with these incumbents, last May Russia's Rosatom announced its intention to invest \$1 billion in new uranium exploration in Namibia. The hope is to identify new uranium fuel sources to be used at the \$20 billion nuclear power plant that Russia is building for Turkey.

Australia Backs Off 40% Mining Supertax

At the beginning of July Australia's new prime minister, Julia Gillard, announced that the new tax would only apply to the country's iron ore and coal industries, while exempting such less profitable metals as nickel, gold, copper and uranium. Needless to say, BHP Billiton and Rio Tinto breathed a sigh of relief.



CanAlaska Uranium Ltd. (CVV-TSXV): Commences ZTEM Airborne Survey for West McArthur Project - On July 29, CanAlaska announced the commencement of a property-wide deep penetrating airborne ZTEM survey on the West McArthur project, a 50/50 joint venture (JV) between the company and MC Resources Canada Ltd., a subsidiary of Mitsubishi Corp. The survey will cover the majority of the property, including current drill targets at grid 1 and grid 2, as well as the developing target at grid 5.

The JV initiated the survey after reviewing data available from a test survey across the grid 1 area, as well as survey data from other properties indicating the ability of the ZTEM system to resolve deep conductive targets better than existing VTEM or MEGATEM surveys.

President Peter Dasler commented: "We have been successful in locating hydrothermally altered zones within three grids on the West McArthur property, based on initial MegaTEM and, later, VTEM, surveys. The aim of the JV partners is to systematically identify other similar targets and build exploration programs around them, but also to sequentially develop a new target zone each year. In 2010, the JV concentrated on the grid 1 target and encountered success in identifying uranium mineralization and basement offsets within the target area. Additional drilling is required to intercept the trend of the offsets. In the grid 5 area, we were able to define, during winter 2010 exploration, a zone of disruption within the main conductor and a strong resistivity anomaly in the same area, indicating a very good drill target for uranium mineralization. The ZTEM survey will provide us with additional information in this immediate area as well as look for additional similar targets for future exploration planning. Our aim is to systematically drill test the best exploration targets during a five-year exploration plan in conjunction with our JV partner."

Denison Mines Corp. (DML-TSX): Announces Discovery of Two New Mineralized Zones at the Phoenix Trend at Wheeler River - On July 15, Denison confirmed that the summer drill program has discovered two new mineralized zones at the extreme northeast and southwest edges of the presently defined Phoenix trend.

At the northeast edge of the Phoenix trend (zone D) basement-hosted mineralization was discovered in the WR-309A area. WR-325 located a deep zone of strongly altered graphitic pelite, with three low-grade intersections within a 66-metre continuous core length at a depth of 100 metres beneath the much larger silicified cap. The graphitic zone contained elevated equivalent uranium values over the full 66 metres, but less than the cut-off of 0.05 per cent eU₃O₈. To date this is the only hole to have tested this graphitic stratigraphy; it is now an important high-priority target exhibiting potential for both unconformity-and-basement-hosted mineralization.

Drilling to the southwest of the Phoenix trend discovered new mineralization (zone C). WR-328 intersected 9.65 per cent eU₃O₈ over 0.8 metre from 374.4 metres, with an alteration signature indicating the start of a new zone.

Both these zones are open along strike and confirm Denison's belief that the Phoenix discovery is a major deposit, now with four discrete zones of mineralization over a length of 1,300 metres.

Summer 2010 overview

A total of 17 holes totalling 8,344 metres have been drilled as part of this summer's 45-hole, 20,000-metre program. In addition to the drilling of several reconnaissance resistivity targets, several holes were drilled on the margins of zone A and in the area between zones A and B.



Zones A, B

Six holes totalling 2,769 metres (WR-313, WR-315, WR-318, WR-321, WR-324 and WR-327) were drilled on the margins of zones A and B. The first three holes tested the northwest footwall contact of the quartzite ridge at the south end of zone A. These holes confirmed that this contact is very sharp as no significant mineralization was intersected. Two holes (WR-321 and WR-324) tested the gap between zones A and B, and are classified as near misses as the zone narrows to less than 20 metres on these two adjoining sections. Additional infill drilling is planned as part of the summer program.

Drill hole WR-327 was located 10 metres to the southeast on the section with high-grade hole WR-272 (previously reported at 4.13 per cent U₃O₈ over 4.5 metres) and returned 1.41 per cent, 6.50 per cent and 2.15 per cent eU₃O₈ over 0.4 metre, 1.4 metres and 0.5 metre from 403.5 metres, 404.2 metres and 407.6 metres, respectively.

Zone D

Four holes totalling 2,269 metres (WR-312, WR-316, WR-320 and WR-325) were drilled at the northeast end of the Phoenix trend. The first three holes intersected a silicification column in the sandstone previously reported from WR-309A. Silicified sandstone is a characteristic feature overlying the McArthur River deposits. These holes intersected no features in the basement that could cause this intense alteration. The fourth hole, WR-325, tested the hypothesis that the silicification in the sandstone was related to a basement structure oriented parallel to the grid lines. This hole intersected over 66 metres of strongly altered graphitic pelite. It is believed that where this graphitic pelite intersects the unconformity is a prime target for unconformity mineralization. Additional holes are planned to test the favourable graphitic horizon up dip at the unconformity where no drilling has been carried out. Future drill holes will also target down dip to test for an Eagle Point-type target, as the graphitic basement alteration is the most intensely altered of all areas of the Phoenix.

Zone C

Two holes totalling 858 metres (WR-326 and WR-328) were drilled at the extreme south end of the Phoenix trend. WR-326 intersected favourable stratigraphy approximately 25 metres ahead of WR-270 and is believed to have overshot the optimum target. WR-328 was collared 58 metres to the southwest along the assumed trend. The alteration was intersected in the sandstone 40 metres higher than in WR-326, a feature noted in the past that is often associated with mineralization. This hole intersected 9.65 per cent eU₃O₈ over 0.8 metre from 374.4 metres. This zone remains open to the southwest and northeast.

Geophysical targets

Five holes totalling 2,448 metres (WR-314, WR-317, WR-319, WR-322 and WR-323) were drilled on reconnaissance resistivity and electromagnetic (EM) conductor anomalies in areas away from but along strike from the Phoenix stratigraphy. While no intersections of economic significance were made, holes WR-319 and WR-322, both drilled in close proximity to previously abandoned hole WR-284, intersected very favourable structural disruption while not explaining the causative geophysical anomalies. Further drilling is planned.

The summer 2010 drill program is expected to continue with three drill rigs until early September. The current focus will be on infill and strike extension work on zones A and B.

The Phoenix deposits are located on the Wheeler River property, which is located between the McArthur River mine and Key Lake mill complex. Denison is the operator and holds a 60-per-cent interest in the Wheeler River property. Cameco Corp. holds a 30-per-cent interest and JCU (Canada) Exploration Company Ltd. holds the remaining 10-per-cent interest.



All drill holes reported to date were drilled at either minus 80 or minus 90 degrees (except for WR-325, which was drilled at minus 75 degrees). While the exact attitude of the mineralization remains uncertain, it is believed at this time that the mineralized intervals represent near-true widths. All equivalent uranium values are reported at a cut-off of 1.0 per cent eU₃O₈ unless otherwise noted.

Fission Energy Corp. (FIS-TSXV): Commences Summer Drill Program at J-Zone High Grade Uranium Discovery - On July 26, Fission and its joint venture partner, the Korea Electric Power Corp. consortium, began the previously announced summer drill program at their flagship 40,256-hectare Waterbury Lake uranium exploration project. Primary focus will be to build on the success of the J-zone unconformity high-grade uranium discovery made earlier this year. The J zone currently comprises an area 90 metres by 50 metres wide as defined by 21 closely spaced drill holes, most of which were vertically drilled and are open in all directions. The following summary outlines the current program:

- A \$2.07-million budget approved by the joint venture in June;
- 13 drill holes totalling an estimated 4,000 m, including several vertical drill holes to be collared from a barge on the lake;
- Continuing step-out drilling along the mineralized trend toward the Highland zone (WAT10-092), 130 m to the west, with two holes planned to further test the J zone east (WAT10-094A), located 70 m east of the J zone;
- A marine acoustic seismic survey over the east-west corridor between Discovery Bay and Talisker to be completed;
- Mapping and prospecting unexplored parts of the Waterbury Lake property that exhibit high-mineral potential to be continued.

The program is expected to be completed by early September. Results will be announced when available. An updated map can be found on the company's website.

The Waterbury consortium has budgeted \$30-million for exploration at Waterbury Lake over the next three years.

Hathor Exploration Ltd. (HAT-TSXV): Commences Three Rig Drill Program at its Roughrider Uranium Deposit - On July 13, Hathor released an update of its current exploration plans for the Athabasca basin.

Drilling has commenced on the Midwest Northeast property. Three rigs are on-site; two are turning, with the third, on barge, slated to start on July 16, as per DFO regulations. The barge rig will continue delineation drilling on the Roughrider deposit, and complete several reconnaissance holes in "the gap" between it and Roughrider East. One rig will complete infill drilling at the recently discovered Roughrider East deposit, and test for extensions to the east. The third rig will test the resistivity anomaly running southwestward from Roughrider East, along the Midwest trend.

The three-month program will end in late September, as dictated by environmental conditions. The summer program is budgeted at approximately \$6-million.



Pitchstone Exploration Ltd. (PXP-TSXV): Eastern Athabasca Uranium Exploration Update - On July 14, Pitchstone announced that drilling had been completed on the Wolverine property in Saskatchewan. Anomalous radioactivity was observed in one hole. Down hole gamma probe results indicate that radioactivity averages 4,100 cps (approximately 40 times background) over a 2.1-metre interval and analytical results are pending. A subsequent drilling program is now under way on the Gumboot property. This program will also include drill holes at the contiguous Johnston Lake property and the nearby Candle property.

Wolverine was optioned to Japan Oil, Gas and Metals National Corporation in 2009. Johnston Lake was optioned from Denison Mines Corp. in 2009, and exploration on Candle is a joint venture with Uranium One and JCU (Canada) Exploration Company, Limited since 2004. All of the properties are located in Saskatchewan's prolific eastern Athabasca basin.

Wolverine drilling results

This first phase of drilling consisted of four drill holes totalling 1,409 metres that tested two geophysical target areas. Both of the target areas are characterized by DC-resistivity lows and magnetic lineaments that have been interpreted as possible fault structures. Anomalous radioactivity was observed in one hole associated with hematite alteration and shearing in the basement, 370 metres below surface and 70 metres below the unconformity. Down hole gamma probe results indicate that radioactivity in the zone averages 4,100 cps (approximately 40 times background) over a 2.1 m interval, with a spot high of 10,400 cps (greater than 100 times background). Samples of drill core have been submitted to SRC Geoanalytical Laboratories in Saskatoon for assaying. All exploration on the Wolverine property is being financed by JOGMEC.

Gumboot, Johnston Lake and Candle drilling

A program of drilling has commenced on the Gumboot, Johnston Lake and Candle properties, all located within 20 kilometres of the Cigar Lake deposit. A total of 3,700 metres is planned. Targets include extensions of the alteration and mineralization previously drilled by Pitchstone at Gumboot. This includes 0.66 per cent U₃O₈, 11.10 per cent Ni and 0.57 per cent Co over 0.3 metre, 2.06 per cent U₃O₈, 1.15 per cent Ni and 0.23 per cent Co over 0.1 metre, and 1.04 per cent Ni, 0.15 per cent Co and 0.01 per cent U₃O₈ over 14.1 metres (see news in Stockwatch Sept. 9, 2009). At Johnston Lake, drilling will test extensions to mineralization and alteration identified by previous operators, including a 1988 drill hole which intersected 0.48 per cent U₃O₈ over 0.25 metre, 10 metres below the unconformity. Drilling at Johnston Lake will also target a previously untested 2.4 km long conductor. The program also includes one drill hole on an untested four km long portion of the 97H conductor on the Candle property.

Titan Uranium Inc. (TUE-TSXV): Commences Summer Drilling at Border Block Project - On July 22, Titan reported that its summer 2010 drilling program was under way on the Border Block project. The Border Block project is the subject of a letter of agreement between Titan and Japan Oil, Gas and Metals National Corporation wherein JOGMEC can earn a 50-per-cent undivided interest in the project by financing \$6-million in exploration over four years (see news in Stockwatch Nov. 12, 2008).

Aggressive Drilling Inc. completed mobilization of the drilling crew and equipment to the Border Block project site and the drill campaign commenced July 22, 2010. The planned program consists of approximately 1,500 metres of diamond drilling to test prospective targets identified by recently completed (spring 2010) Squid time domain electromagnetic (TDEM) and DC resistivity surveys. DC resistivity is the geophysical technique of choice in the Athabasca basin due to its ability to image hydrothermal alteration systems, which form resistivity chimneys, often associated with fault zones and unconformity-type uranium deposits.



The Border Block project is located in the southwest area of the Athabasca basin, near the Alberta border, and consists of the Maybelle River, Gartner Lake, King and Castle South Extension properties. The project (76,354 hectares/188,675 acres) covers an area where historic exploration data identified favourable basement rocks capable of hosting uranium mineralization. The basement rocks are thought to be correlative with those found on the adjacent Areva/UEX Corp.'s Shea Creek project which hosts significant uranium mineralization in the Anne, Collette and Kianna deposits.