

Athabasca Basin EXPLORATION UPDATE

January.1.2011

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Uranium
Group Inc.

	November 30, 2010	December 31, 2010	Change
Ux Consulting's Spot Price	US\$61.00/lb U ₃ O ₈	US\$62.50/lb U ₃ O ₈	US \$1.50
Ux Consulting's Term Price	US\$65.00/lb U ₃ O ₈	US\$65.00/lb U ₃ O ₈	unchanged

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Industry Commentary

By Chris Frostad

Banking on Uranium Supplies

The secure and uninterrupted supply of uranium seemed to be the objective early last month as two fuel banks are announced.

Russia has now stockpiled 120 tons of reactor-grade uranium at the Angarsk Enrichment Plant in order to ensure fail-safe operation of nuclear power plants in countries that do not have access to enrichment technology. The creation of the International Uranium Enrichment Center (IUEC) was established under the safeguards of the International Atomic Energy Agency (IAEA) with the aim of building global nuclear industry infrastructure in compliance with non-proliferation provisions. Its primary goal is to address concerns of countries that intend to start building nuclear power stations, but do not have enrichment capabilities.

Meanwhile, the United Nations atomic agency won approval last week to start a uranium bank backed by billionaire investor Warren Buffett. The \$150 million fund will buy low-enriched uranium in order to assure global supply.

Both of these initiatives, however, have been objected to by some developing nations who argue that under this arrangement, their power programs would hinge on the political aspiration and the will of those few nations who possess enrichment technology.

Securing uranium supply is a key strategic component to the entire industry. A month ago, Cameco discussed their intentions of growing through exploration rather than acquisition on top of a near term target to double production to 40 million pounds by 2018. The company will spend approximately \$55 million on exploration in 2010 on top of \$35 million in expansion projects in Australia and Kazakhstan.

With the megatons for megawatts program (downgrading old Soviet nuclear warheads into nuclear fuel) set to expire at the end of 2013, 40% of the current global supply of uranium will be stripped from the market. There is a real and immediate need to fill that hole by all of those involved.

Supply Risk - Olympic Dam

BHP Billiton remains on track to give the go ahead late next year to the \$US30 billion-plus Olympic Dam copper, uranium and gold expansion program in South Australia. Last month the company filed its final environmental report which is now the subject of an "adequacy test" by the federal South Australian and Northern Territory governments before final approvals.

Just to put this expansion into perspective, it is expected that the uranium produced from the newly expanded mine will grow from 4,000 tonnes per year to 19,000 tonnes per year. That 15,000 increase represents approximately 30% of the world's current production.

On December 12, Australia's Greens released a report detailing the fact that the proposed "mega expansion" would not only benefit environmentally from leaving uranium in the ground, but would also still be financially viable. When a company like BHP attempts to create the world's largest mine in a country so politically fractured when it comes to nuclear energy the outcome is certainly not a slam dunk.



The expansion of the Olympic Dam mine is firmly assumed into the uranium supply/demands charts used as the basis of our forecast pricing. The effect on uranium prices that would result from a failure of this expansion, would make the Cigar Lake flood look like a non-event.

Close attention should be paid to the remaining Australian government approvals required next year as they could affect us all greatly.

Uranium Demand Indicators Looking Good

Last month it was announced that the volume of uranium sold in the spot market hit a record this year. Some 41.6 million pounds of uranium-oxide concentrate was sold in the market for the week ending Dec. 10, breaking a previous 1990 record of 40.6 million pounds.

Macquarie Bank analyst Max Layton stated in November that Chinese purchases from Kazakhstan, Uzbekistan, and Namibia had taken more than 6 million pounds out of the spot market. China Guangdong Nuclear Power Co. last month agreed on long-term supply with Kazatomprom and Cameco Corp., the two largest uranium mining companies.

Things also appeared to be heating up on the exploration front as it was announced 2 weeks ago that mining giant Rio Tinto is moving into Saskatchewan's Athabasca Basin. Rio's stated objective is to focus only on those areas with the potential to deliver Tier 1 quality deposits and they must think that there are still some to be found in the Basin. The \$22.5 million agreement allows Rio to earn into Purepoint Uranium Group Inc.'s Red Willow project with plans to begin their next phase of drilling in Q1 of the New Year.

Last week Australia-based Paladin Energy Ltd agreed to buy the Michelin deposit in Labrador from Canada's Fronteer Gold Inc in an all-stock deal valued at about C\$260 million.

Paladin is paying a mere \$US1.90/lb for the 130 million pound resource, compared with recent precedents of \$US6-11/lb. Russia's Rosatom is offering \$1.6 billion or \$US10/lb for Mantra Resources, which owns the Mkuju River project in Tanzania.

As demand forces more money to trickle down to the exploration and development level, it is highly likely that the next few years could bring some exciting new discoveries and advancements.



Hathor Exploration Limited (HAT-TSXV): Recent Drill Results at Roughrider East and Roughrider West

- On December 8, Hathor and their partner Terra Ventures Inc. released the final chemical assays for the 2010 summer drill program on the Midwest Northeast property, Athabasca basin, Saskatchewan. Terra Ventures owns a qualified 10-per-cent interest in the property, carried to the completion of a positive feasibility study on the Roughrider deposit. Key results include:

- High-grade intersections at Roughrider East which extend the strike length of deposit to 160 metres, including a high-grade core over 100 metres;
- The Roughrider deposit itself has been bolstered by new mineralization intersected outside the extents of the recently upgraded resource of 28 million pounds U₃O₈, including 24 million pounds at 11.7 per cent U₃O₈ average grade. The extension is not material.

Roughrider East was not included in the recent resource update for the Roughrider deposit itself, and it represents significant upside potential for the overall resource of the Midwest Northeast property. Aggressive delineation drilling will continue this winter, on the heels of two of the largest drill programs completed in the Athabasca last year (44,370 metres drilled in 129 holes). Drilling this winter will focus on infill and extension drilling at Roughrider East, and follow-up drilling of alteration intersected to the northeast of Roughrider, and south of Roughrider East, along a 700-metre resistivity anomaly.

Results

Three rigs completed 18,840 metres in 52 holes during the 2010 summer program. Summaries, including downhole gamma probe results, have been release previously for all drill holes.

Roughrider East highlights reported herein:

- Line 60 west (40 metres west of hole 648): MWNE-10-656A --10.5 per cent U₃O₈ over 16.5 metres, including 22.0 per cent U₃O₈ over seven metres (over all, four mineral zones over 51 metres of altered rock);
- Line 40 east (60 metres east of hole 648): MWNE-10-649 -- 3.3 per cent U₃O₈ over 14.5 metres (over all, eight mineral zones within 150 metres of altered rock).

Together with the new results, previously released results confirm 160 metres of strike potential at Roughrider East (line 100 west to line 60 east), sill open in both directions. Photographs of massive pitchblende and semi-massive pitchblende-hematite worm rock have been released previously and are available on Hathor's website.

Summary of select holes from Roughrider East:

- Line 100 west: MWNE-10-629 -- 1.2 per cent U₃O₈ over 9.5 metres;
- Line 60 west: MWNE-10-656A -- 10.5 per cent U₃O₈ over 16.5 metres;
- Line 20 west:
 - MWNE-10-648 -- 7.8 per cent U₃O₈ over 63.5 metres, including 24.3 per cent U₃O₈ over 17.5 metres;
 - MWNE-10-604A -- 9.2 per cent U₃O₈ over eight metres;
 - MWNE-10-608 -- 5.3 per cent U₃O₈ over 15.5 metres;
 - MWNE-10-609 -- 3.7 per cent U₃O₈ over 25.5 metres;
 - MWNE-10-610 -- 22.5 per cent U₃O₈ over 12.0 metres;
 - MWNE-10-612 -- 11.8 per cent U₃O₈ over 19.0 metres;
- Line 40 east: MWNE-10-649 -- 3.3 per cent U₃O₈ over 14.5 metres.



New results from Roughrider deposit

Only 19 of 52 drill holes in the 2010 summer program were completed on the Roughrider deposit itself. Objectives included closing off mineral zones on some lines and infill drilling of mineralization outlined by widely spaced holes on other lines. Highlights include the following:

- Line 50 east: MWNE-10-230 -- 0.24 per cent U₃O₈ over 12.0 metres, including 1.23 per cent U₃O₈ over three metres;
- Line 20 east: MWNE-10-220 -- 3.91 per cent U₃O₈ over 7.5 metres;
- Line 0 east: MWNE-10-227A -- 1.23 per cent U₃O₈ over 15.0 metres;
- Line 10 east: MWNE-10-240 -- 1.62 per cent U₃O₈ over 13.0 metres.

Drilling from the 2010 summer program was not included in the updated mineral resource estimate for the Roughrider deposit. Results from the summer 2010 drill holes do not produce a material change, positive or negative, to the overall estimate of 28 million pounds.

Hathor Exploration Limited (HAT-TSXV): New Uranium Mineralization Confirms Exploration

Potential at Russell Lake - On December 10, Hathor provided an update on its Russell Lake property in the southeastern part of the Athabasca basin in Northern Saskatchewan. Details are provided below for ground geophysics and first-pass diamond drilling recently completed during the fall 2010 surface exploration program.

Aggressive follow-up diamond drilling is planned for this winter at Russell Lake. Ground geophysics will also be done this winter on other high-priority targets on the property, namely the Key Lake trend on the southern part of the property. Work is expected to begin in early January. An outline of planned drilling and geophysics will be released at the commencement of the program.

2010 program summary

- Five diamond drill holes were completed for 2,687 metres. All drilling was done on the Christie Lake grid. Depth to unconformity is around 300 m.
- Hole CL-10-03 is prospective and warrants follow-up. Visible pitchblende mineralization manifests as disseminations and fracture linings occur within an intensely hematite-altered and brecciated pegmatite. The interval is strongly radioactive, and returned geochemical values of 0.17 wt per cent U₃O₈ over 0.4 m. The mineralization is associated with high concentrations of calcium (up to 15 wt per cent) and phosphorous (up to 10 wt per cent), and elevated rare earth elements (SREEs plus Y is equal to 670 parts per million (ppm)). This occurrence is located about 60 m below the unconformity. Intense bleaching is common in Athabasca group sandstone, including local sandstone desilicification.
- Transient magnetotelluric surveys (AMT) were completed over two grids: 24.2 line kilometres on 12 lines at Fox Lake and 26.8 line km on 12 lines at M zone extension. A third grid is planned for this winter, located farther to the northeast at Christie Lake. Final results are anticipated by Christmas, and will be incorporated into final drill targets for the upcoming winter drill program.
- A fully provisioned and operational exploration camp has been established in the west-central part of the property with road access via the McArthur River-Key Lake haul road. The camp will be effective for future exploration across the entire property.



Regional context

The Russell Lake property is within the Wollaston-Mudjatic magnetic low transition zone, commonly referred to as eastern corridor of the Athabasca basin. This corridor accounts for 100 per cent of current uranium production in Canada, and it has consistently contributed between 20 and 30 per cent of global primary uranium supply for the past 30 years. Looking forward, the greatest endowment of proven resources for future production within the Athabasca is within the eastern corridor, in the region immediately surrounding Russell Lake. The south end of the property is 15 km northeast of the Key Lake mine/mill complex. The northern end is 12 km southeast of the McArthur River mine. The Phoenix deposit now estimated at 39 million pounds by Denison Mines is immediately west of the central part of the Russell Lake property.

Drill targets at Russell Lake are based on the integration of recent geophysical surveys, updated regional geological surveys and synthesis of historical work, as summarized on the company's website. The property is vastly underexplored and has seen little previous drilling relative to surrounding areas. Targets generated during data compilation in 2010 are for the most part untested, enhancing the overall exploration potential of Russell Lake.

JNR Resources Inc. (JNN-TSXV) and Denison Mines Corp. (DML-TSX): Announce 2011 Winter Exploration Programs - On December 22, JNR Denison Mines approved exploration programs totalling \$1-million on the Moore Lake and Bell Lake joint ventures at meetings held in Saskatoon on Dec. 17, 2010. These properties are all located in the Athabasca basin of Northern Saskatchewan.

At the Moore Lake project where JNR has a 25-per-cent participating interest, uranium mineralization has been intersected in several distinct areas throughout the property, including high-grade mineralization within the Maverick zone. The 2011 winter program is budgeted at \$800,000 and will consist of a minimum of 3,000 metres of diamond drilling on several high-priority targets that exist on the property. This program is scheduled to commence by mid-January, 2011.

On JNR's 40-per-cent-owned Bell Lake project, the companies approved a \$200,000 winter program that will consist of 60 kilometres of linecutting, ground magnetics and fixed-loop EM. Review of the historical drilling and geophysics on the Bell Lake property in the area of the proposed grid has identified several high-priority targets requiring geophysical refining. Targets delineated in this survey are anticipated to be drill tested in 2012.



Purepoint Uranium Group Inc. (TSXV-PTU): Rio Tinto Options Red Willow - On December 21, Purepoint announced that it had entered into a definitive option agreement with Rio Tinto Exploration Canada Inc., allowing Rio to earn a controlling interest in Purepoint's Red Willow project by spending up to \$22.5-million in exploration and development expenses. Rio Tinto Exploration Canada Inc. is a wholly owned subsidiary of Rio Tinto, the world's third-largest producer of uranium.

"Recent increases in nuclear power projections have put significant pressure on major uranium producers to explore for large, high-value mineral deposits," said Chris Frostad, Purepoint's president and chief executive officer. "We are excited that Rio has confirmed that level of potential in Purepoint's Red Willow project and chosen it as their entry point to the Athabasca basin."

Highlights:

- Rio is currently finalizing plans for a drill program on the property during the first quarter of 2011.
- Rio may earn a 51-per-cent undivided interest in the project by incurring \$5-million in expenditures by Dec. 31, 2015.
- Rio may earn an additional 19-per-cent undivided interest by incurring an additional \$7.5-million by Dec. 31, 2018.
- Rio may earn an additional 10-per-cent undivided interest by incurring an additional \$10-million by Dec. 31, 2021.

Red Willow

The Red Willow property consists of nine claims on the eastern edge of the Athabasca basin. The Athabasca sandstone is shallow and the depth to unconformity varies from zero to 80 metres. The basement rocks are composed of intensely deformed and metamorphosed sedimentary, volcanic and plutonic rocks trending northeast to southwest. Five major uranium deposits are located along a northeast-to-southwest mine trend that extends through the Red Willow project. To date, only five of Red Willow's 21 delineated target zones have been subject to first-pass drilling.

The Red Willow property adjoins Areva Resource Canada Inc.'s claim group that contains the Jeb, Sue, McClean and Caribou deposits to the west, and, to the south, adjoins UEX's Hidden Bay property that surrounds Cameco Corp.'s Rabbit Lake, Collins Bay and Eagle Point deposits.

Pitchstone Exploration Ltd. (TSXV-PXP): Finalizes Uranium Drilling Plans - On December 16, Pitchstone announced plans for the next phase of exploration in the Athabasca basin, Saskatchewan. Drilling programs will begin early in 2011 at the Gumboot and Johnston Lake properties in the Athabasca basin, Saskatchewan. Gumboot is 100 per cent owned and Johnston Lake has been optioned from Denison Mines Corp.

Athabasca basin drilling

Pitchstone has started preparation of the winter access road to the Gumboot and Johnston Lake properties, 20 kilometres northwest of Cameco's Cigar Lake uranium deposit. Bryson Drilling of Archerwill, Sask., has been contracted for the work and the camp is in place. Pitchstone will complete approximately 4,500 metres of core drilling to test three targets on each of these properties during the period January to March, 2011. Drilling will target uranium at the altered and mineralized portions of the five-kilometre-long conductor system at Gumboot and the 10-kilometre-long conductor system at Johnston Lake. Previous drilling on the Gumboot property has returned 0.66 per cent U₃O₈, 11.10 per cent Ni and 0.57 per cent Co over 0.3 metre, and 2.06 per cent U₃O₈, 1.15 per cent Ni and 0.23 per cent Co over 0.1 metre (see the company's news release in Stockwatch dated Sept. 9, 2009). Previous drilling on the Johnston Lake property has returned 0.48 per cent U₃O₈ over 0.25 metre.



Virginia Energy Resources Inc. (TSXV-VAE) and Denison Mines Corp. (DML-TSX): Geophysics Underway and Drilling Approved for Hatchet Lake JV Property - On December 21, Virginia Energy approved a 12-hole, 2,300-metre drill program on the Richardson-Crooked Lake target on the Hatchet Lake property in the Athabasca basin of Saskatchewan. The property is held by Virginia and Denison Mines Corp. in a 50-50 joint venture with Denison as operator.

The drilling is planned for February, 2011, and will be preceded by a ground-based horizontal loop electromagnetic (HLEM) survey to refine the position of several shallow conductor targets. The Richardson-Crooked Lake area is located 20 kilometres north of the Tuning Fork target where the JV partners identified unconformity-style mineralization in a winter 2010 drill program (as announced in Stockwatch on June 29, 2010). In addition, the JV partners plan ground geophysical surveys in 2011 on the adjacent Murphy Lake property.

The 2011 drilling and geophysical survey will target a historically described, six-kilometre-long conductor system with uranium and base-metal enrichment associated with sulphide mineralization and alteration in sandstone and basement rocks. The Richardson-Crooked Lake target is located on the shallow northeast margin of the Athabasca basin with depths to the basement contact targets varying from zero metres to 120 metres, well within the limits of low-cost open-pit mining.

While there has been considerable historic drilling in this area, most of the holes were vertical and did not effectively test the steeply dipping conductors. Nevertheless, a number of historic uranium and polymetallic base-metal (Co, Cu, Ni, Zn, As, Au) drill intercepts were reported, including SMDC hole 61 which intersected "uraniferous sulphide breccia" which assayed 7.34 per cent Co, 1.66 per cent Ni and 16.07 per cent As over 2.5 metres (and five metres of 73 parts per million U), hole 74 which intersected 2,112 parts per million U, 256 parts per million As and 202 parts per million Ni over 3.4 metres, and hole HT-96 which intersected 2,600 parts per million U over one metre plus adjacent sections which assayed 5.95 per cent Cu over two metres and 0.612 per cent Co over 2.5 metres. The association of uranium with very high base metal values is very encouraging as it is typical of the polymetallic class of sandstone-hosted deposits such as Cigar Lake, Roughrider and the Sue A, B, and E deposits. Most of the holes in this area did not extend far below the unconformity, and therefore did not adequately test for mineralization in the basement rocks.

The 39,930-hectare Hatchet Lake property is located 25 kilometres north of Points North Landing, and 17 kilometres north of the McClean Lake mill owned by AREVA-Denison-OURD. The target is an unconformity-type or basement-hosted uranium deposit at or near the contact between the Athabasca sandstones and underlying basement rocks. The Hatchet property includes faults and conductors similar to those that host nearby unconformity-related uranium deposits and prospects such as Jeb (Areva-Denison-OURD), Dawn Lake and La Rocque Lake (Cameco-Areva-JCU), Moonlight (Areva-Denison-JCU), Midwest (Areva-Denison-OURD), and Roughrider (Hathor-Terra).