



Mercenary Alert: Another Uranium Company on Sale

**A Special Alert Musing from Mickey the Mercenary Geologist
For Subscribers Only**

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I am a self-admitted uranium perma-bull. Although the short-term fundamentals are not very positive, my thesis for the mid-to long-term bull market of this essential energy metal is compelling ([Mercenary Musing, December 16, 2013](#)).

I soon followed the analysis of uranium's supply-demand fundamentals with a new stock pick. I do the same today and once again, have focused on a uranium producer in a geopolitically favorable jurisdiction.

The company is US-listed [Uranium Energy Corp \(UEC.MKT\)](#) and it operates in-situ recovery (ISR) fields in South Texas.

I am a long-term and committed shareholder of UEC. The company went public in early 2006 as an OTCBB issuer with a focus on mid-term ISR uranium production in South Texas. It positioned itself well in the sector by making many property acquisitions in the Western United States, purchasing historical exploration and production databases that now include more than 70,000 drill holes, and hiring many uranium industry veterans, including pioneering ISR engineer Harry Anthony as COO.

In Q3 2007, Uranium Energy Corp graduated to an AMEX listing, now called the NYSE MKT. In Q4 2010, it became an ISR producer in South Texas and has made periodic sales of uranium since then.

Uranium Energy Corp has 89.6 million shares outstanding and 103.4 million fully diluted. Included are 5.0 million currently out-of-the-money warrants with strike prices of \$2.25-2.60 and expiries of August - October 2016. There are 8.8 million options issued to management, employees, directors, and consultants at weighted average price of \$2.02 and expiry of 5.5 years. Management owns about 20%, institutions control about 49% of issued shares, and public float is 31%. Los Angeles-based Huber Capital owns over 17% of the shares. Other key investors and backers include Asia's richest man, Li Ka-shing, Rick Rule, and Eric Sprott.

UEC has a 52-week high of \$2.74 and low of \$1.40. It currently trades at \$1.77 giving a market capitalization of about \$159 million. The company has long-term debt of \$10 million and a credit facility

in place for another \$5 million prior to August 2014. As of its last quarterly filing on October 31, 2013, working capital stood at \$10.3 million with a cash position of \$14.7 million. With its NYSE listing, the company has good liquidity and has averaged 650,000 shares traded per day over the past three months.

Uranium Energy Corp's one-year chart reflects the ongoing difficulties that worldwide uranium producers have faced post-Fukushima.

However, unlike its three domestic uranium mining peers that have been on the uptick since mid-to late-December, UEC has dropped 23% since mid-October and 13% since closing at \$2.04 on December 30. I can ascertain no fundamental reason for its recent weakness during a two-month period when the uranium sector has been on the uptrend.



Uranium Energy Corp is led by CEO Amir Adnani. I have known Amir for about four years and think highly of his understanding of the uranium industry. Other management personnel include CFO Mark Katumatsu, VP Administration Pat Obara, VP Corporate Development Bruce Nicholson, and VP Marketing and Sales Butch Powell. Mining industry veteran Alan Lindsay is COB and directors include Ivan Obelensky, Vincent della Volpe, David Kong, and Katherine Armstrong. Former US Secretary of Energy and current Occidental Petroleum Vice-Chairman Spencer Abraham heads the advisory board.

Key members of UEC's technical team include the aforementioned senior advisor Harry Anthony, VP Exploration Clyde Yancey, VP Production and Operations Robert Underwood, VP Resource Development Andrew Kurrus, and VP Land Leonard Garcia.

Uranium Energy Corp utilizes ISR mining to produce uranium, which means lower capital and operating expenditures, shorter lead times to extraction, and reduced impact on the environment. It currently has one uranium mine in South Texas. The Palangana mine commenced extraction of U_3O_8 in November 2010. The uranium-bearing solutions are loaded onto resin via ion exchange and trucked to UEC's central processing facility for stripping, precipitation, drying, and packaging. Drums of U_3O_8 (yellowcake) are shipped to a third-party for storage until sold.

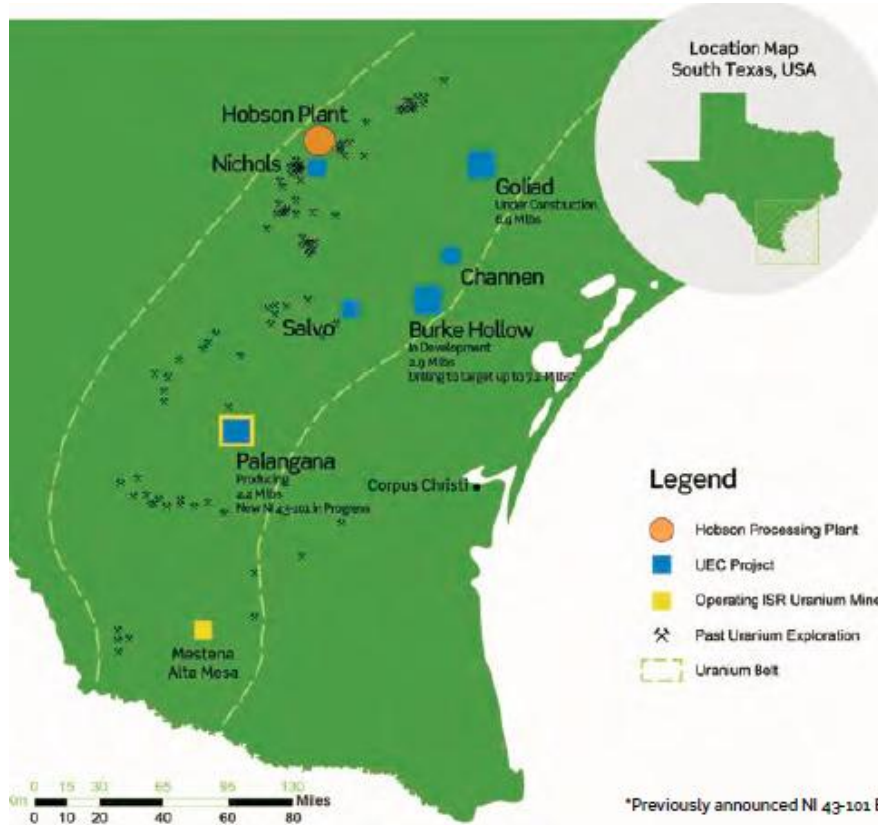


Palangana Well Field and Processing Facility

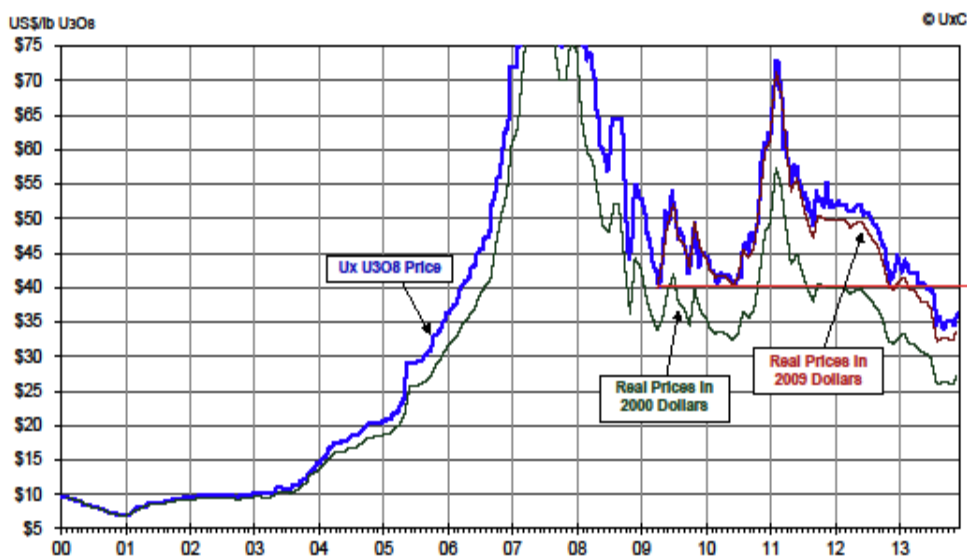
The Hobson Processing Facility is licensed to process up to one million pounds of U₃O₈ annually but has capacity for two million pounds. The central uranium processing plant currently concentrates ores from Palangana and will be used for other satellite ISR mines in the future via UEC's "hub and spoke" operation:



In the South Texas Uranium Belt, UEC's fully-permitted Goliad project under construction while its Burke Hollow, Channen, Nichols, and Salvo projects are in the advanced exploration, delineation, and permitting phases. Qualified resources total 16.1 million pounds with strong exploration potential, particularly at Burke Hollow:



Uranium is currently trading at eight-year lows with the spot price at \$35/lb while long-term off-take contracts have dropped to at \$50/lb:



Uranium Spot Price in Actual, 2000, and 2009 Dollars (Ux Consulting)

To adapt to a depressed uranium market, Uranium Energy Corp announced a three-pronged strategic operating plan in September:

- Reduce the pace of uranium extraction at the three Palangana mine operating fields. Operational readiness is being maintained to enable a quick ramp-up output once uranium spot prices recover. Palangana has a measured and indicated resource of 1.06 million pounds at an average grade of 0.135% U_3O_8 , and an inferred resource of 1.15 million pounds of U_3O_8 at an average grade of 0.176%.
- Continue to develop and permit for new well fields at the Palangana mine and the Goliad project. Goliad has measured and indicated resources of 5.48 million lbs U_3O_8 and an inferred resource of 1.50 million pounds U_3O_8 , both at an average grade of 0.05%.
- Continue exploration, development, and permitting activities at the Burke Hollow project. It has an initial inferred resource estimate of 2.9 million lbs at an average grade of 0.047% with significant expansion potential. UEC expects to submit final mining and license applications this quarter.

In addition to its South Texas assets, Uranium Energy holds 17 uranium properties in various stages of exploration in the States of Arizona, Colorado, New Mexico, Texas and Wyoming. Most are located in historical uranium mining areas and have been explored by other mining companies in previous uranium booms. Many of these projects are not amenable to ISR extraction and therefore, are considered non-core assets:



UEC's Exploration Properties in the Western United States

UEC also controls two large exploration concessions in Paraguay that company geologists and engineers liken to South Texas, in that the uranium is thought to be amenable to ISR extraction and production:



UEC's Paraguay Exploration Projects

The company is continuing work at some of its exploration and development properties:

- Review of historical and recent data for further exploration, delineation, and development at the Anderson deposit in central Arizona where open-pit resources total 15.5 million lbs U_3O_8 indicated at an average grade of 0.028% U_3O_8 and 2.5 million lbs U_3O_8 inferred at an average grade of 0.024%. The project also contains an underground resource of 1.5 million lbs U_3O_8 indicated at an average grade of 0.049% and 9.5 million lbs U_3O_8 inferred at an average grade of 0.052%.
- Preliminary economic assessment for the Slick Rock project in western Colorado. It has a qualified inferred resource of 4.6 million lbs U_3O_8 at an average grade of 0.296%.
- Review of historical and recent drill data from the Yuty and Colonel Oviedo projects in Paraguay to plan a next round of exploration and delineation. Geologists will conduct a radon survey to follow-up airborne radiometric anomalies and outcrop sampling. Yuty hosts a measured resource of 2.05 million tonnes at 0.062% U_3O_8 containing 2.80 million lbs, an indicated resource 5.78 million tonnes at 0.048% U_3O_8 containing 6.11 million lbs, and an inferred resource of 2.14 million tonnes of 0.047% containing 2.23 million lbs.

Uranium Energy Corp's total inventory includes 89.1 million lbs of U_3O_8 in 43-101 qualified and historic resources. 73 million lbs of its in-situ resources are located outside of South Texas, mainly in the Western US but also in Paraguay. Its historic resources are contained in several Western US properties that were

evaluated by uranium mining companies during previous booms. They are generally well-defined and can be qualified with little additional work. I expect UEC to divest of most of its Western US projects as market conditions warrant.

Texas			Paraguay			U.S. Portfolio		
16.1* M lbs			11.1* M lbs			78 M lbs		
Project/ Historic Operator	Stage	Resources M lbs	Project/ Historic Operator	Stage	Resources M lbs	Project/ Historic Operator	Stage	Resources M lbs
Palangana/ Union Carbide	(P)	2.2*	Yuty/ Cue Resource	(E)	11.1*	Anderson/ Urangesellschaft	(E)	29*
Goliad/ Moore Energy	(NT)	6.9*	Paraguay Resource Growth Potential			Los Cuatros/ Teck Corp	(E)	12
Burke Hollow/ Total Minerals	(E)	2.9*	Oviedo/ Anschutz	(E)	23 - 56	Workman Creek/ Wyoming Minerals	(E)	5.5*
Salvo/ Mobil Oil	(D)	2.8*	TOTAL GLOBAL RESOURCES 89.1 M lbs			Slick Rock/ Union Carbide	(E)	4.6
Nichols/ Texaco Corp	(E)	1.3*				Colorado Plateau/ Uravan Minerals	(E)	3.1
Channen	(E)	-				West Ranch/ Kerr McGee	(E)	2.6
Texas Resource Growth Potential						Carnotite/ Uravan Minerals	(E)	2.6
Burke Hollow/ Total Minerals	(E)	1.8 - 7.2	<small>(E) Exploration (D) In Development (NT) Near Term Production (P) Producing</small> <small>* N 43-101 Technical Reports completed and available on SEDAR</small>			Artillery Peak/ Oklahoma Public Svcs	(D)	2.0
Infrastructure			<small>Note: The resources stated are historical in nature. Recent independent verification of the data has not yet been performed. The Company has not completed sufficient exploration to verify the historical resource estimates.</small>			Burnt Wagon/ Kirkwood Oil	(E)	0.5
Hobson Processing Plant/ Uranium One								

With 71 new nuclear reactors under construction, another 173 on order or planned, and annual mine supply consistently falling short of reactor demand, the mid- to long-term fundamentals of the uranium market are bullish. It seems certain to me that a significant supply deficit is looming. That said, there is a supply overhang and little short-term demand for yellowcake in the marketplace, largely due to the shutdown of Japan's 50 operable reactors for over two years.

Since my musing on uranium in mid-December, new developments have added to the bullish view:

- In mid-January, Uranium Participation Corp completed a \$50 million bought-deal financing, which will be used to buy physical uranium in the marketplace. Given the current spot price, this will add demand of 1.2 million pounds U₃O₈-equivalent in the short term.
- Due to depressed prices, marginal production and new developments continue to be shuttered. Recently, Paladin Energy announced the suspension of its 3 million lbs U₃O₈ / yr KM mine in Malawi. It joins other large mines and development projects that have been mothballed, delayed, cancelled, or abandoned in the past year including two Areva mines in Niger, ARMZ's Mjuku River, Cameco's Cigar Lake, Energy Resources' Ranger Deeps, and new Kazakhstan ISR projects.

- The pro-nuclear power candidate, Masuzoe, recently won the Tokyo governorship against his two anti-nuclear opponents. This was an election seen by the industry as a proxy vote on Japan's ongoing nuclear debate. In addition, the political climate at the national level is viewed as positive for restart of Japanese reactors in 2014.
- The Japanese government unveiled its mid-to long-term basic energy plan this week, which reaffirmed its commitment to nuclear energy as an important source of base load electricity, called for restart of shuttered reactors, and could lead to new reactor build-outs.

Consensus analyst reports suggest we can expect a higher spot price by year-end and a more significant rebound in the mid-term. A likely catalyst will be Japanese reactor restarts.

With a market capitalization of \$159 million and 16.1 million pounds in 43-101 qualified resources at its flagship South Texas operations, Uranium Energy Corp is valued at \$9.88 per pound-in-the-ground. If all the company's qualified and historic resources are included, its valuation is \$1.78 per pound.

UEC has two ISR-uranium peers in the United States, Uranerz (URZ.MKT) and UR-Energy (URG.MKT). Uranerz anticipates initial production in Q1 2014 while Ur-Energy became operational in September and sold its first uranium concentrate in December 2013. Using a similar treatment for these companies' published resources on their flagship projects gives a valuation of \$7.45 per pound for URZ and \$15.89 per pound for URG.

Uranium Energy's unit valuation falls between these two companies.

I opine that better times lie ahead for the uranium industry as a whole and Uranium Energy Corp in particular. The company has reacted positively to a low-priced market with a strategic plan to reduce production, thus conserving its in-the-ground resources and reducing operational costs and general and administrative expenses. It is maintaining operations on standby and can resume full production quickly once the market improves.

Most importantly, UEC has a three-year track record of successful and economically successful ISR production in South Texas. It is long past the learning curve that typifies start-up ISR operations with historic all-in cash costs less than \$22 per pound U_3O_8 , not including royalties.

Permitting is complete at Goliad and ongoing at Palangana; Burke Hollow is advancing rapidly and appears to be the company's future flagship project. The company can add significant production as the uranium price rises.

UEC's uranium is wholly un-hedged and highly leveraged to prices. Therefore, the company is poised to outperform its hedged ISR peers in a significantly rising uranium price environment. With its hub-and-spoke model, cash costs per pound will decrease as throughput to Hobson increases.

With a sound business model and a blue-chip roster of management, technical, and investor personnel, I opine that UEC stands to prosper when the uranium price inevitably rises to meet worldwide production costs. The company has not seen the recent run-up in stock price common to its peers in domestic uranium mining space. For these reasons, I am bullish on UEC in the short, medium, and long term.

I remain a committed shareholder of Uranium Energy Corp at a cost basis higher than its current stock price. It is also a sponsor of my website. Therefore, there is an inherent conflict of financial interest in my opinions on the company.

Please do your own due diligence to determine if Uranium Energy Corp meets your investment criteria.

Ciao for now,

Mickey Fulp
Mercenary Geologist



The [Mercenary Geologist Michael S. “Mickey” Fulp](#) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey’s professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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