



## Mercenary Alert: A Game-Changer for Energy Fuels Inc

A Special Alert Musing from Mickey the Mercenary Geologist

For Subscribers Only

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Today, I am pleased to welcome back a former sponsor to the [MercenaryGeologist.com](http://MercenaryGeologist.com) stable of companies, [Energy Fuels Inc \(UUUU.MKT; EFR.TSX\)](http://EnergyFuelsInc.com). Energy Fuels is the second largest uranium producer and operates the only conventional uranium-vanadium mill in the United States. In early January, it announced acquisition of Wyoming ISR uranium producer, [Uranerz Energy Corp \(URZ.MKT; URZ.TSX\)](http://UranerzEnergyCorp.com). The transaction is expected to close on June 18, and in my opinion, is a game-changer for the company.

I covered EFR in the first half of last year and it was a big winner for subscribers who chose to act on my report ([Mercenary Musing, December 27, 2015](#)). It closed at \$5.61 on the initial day and more than doubled to \$11.85 within nine weeks. However, with profit-taking, low uranium prices, and a weaker market for mining equities, the stock had slipped back to \$7.65 when I reported on a field tour of the company's mines, mill, and development projects ([Mercenary Musing, May 27, 2015](#)).

Then the bottom fell out of the uranium market with the spot price going to \$28/lb in the summer. By November, spot uranium had rallied to over \$40 and since then, has been range-bound from \$35 to \$39. Note term contracts have remained at a significant premium to spot throughout and have been steady at \$49 since early December (chart courtesy of Ux Consulting):



Here's the Energy Fuels chart since my last report one year ago. Its stock held steady despite the low spot price during the summer, got knocked down on Q3 results in October, rallied to \$8.00 with a rising uranium price in November, and then went into an exponential fall from late November to early February. Since then, it has traded at its yearly low of \$4.00 to as high as \$5.50 and closed today at \$4.70.



With a low number of shares outstanding and a volatile price, EFR has offered multiple entry and exit points for traders. Note that it often shows little correlation with the spot price of uranium. I will discuss the reasons later.

Energy Fuels Inc has averaged over 1.0 million pounds of yellowcake production per year from its White Mesa uranium mill over the past five years and is second only to integrated uranium giant Cameo in domestic production. It has existing term contracts with two major US utilities and one with KEPCO, the Korean utility.

The three contracts collectively call for 800,000 pounds of deliveries this year at an average expected price of \$57.45/lb. The company has recently reached agreement to extend the KEPCO contract to 2020 subject to negotiations on quantities and prices. Its US contracts expire in 2017 but could also be extended.

Mill feed currently comes from two sources, the Pinenut Mine, a breccia pipe deposit in the Arizona Strip with a life-of-mine average grade of 0.64%  $U_3O_8$ , and alternate feed materials that are non-ore uranium-bearing materials. These can include uranium-bearing waste, mine tailings, and scraps from the uranium conversion process. Some of these materials grade 70%  $U_3O_8$  or better. White Mesa averages about 300,000 pounds of production per year from alternate feed materials.

With the current depressed uranium price, EFR is operating with a conservative business strategy. The components include:

- Maintaining a strong balance sheet.
- Producing only enough uranium to meet contract obligations.

- Producing from its highest grade and highest margin assets; i.e., the high-grade Arizona Strip breccia pipes and alternate feed materials.
- Maintaining its uranium-vanadium mines in the Utah-Colorado border region on a stand-by basis.
- Advancing its large-scale projects in New Mexico, Utah, and Wyoming by permitting for development and future production at a higher uranium price.
- Acquiring some of the best uranium assets in the US at sale prices.

The company has excellent leverage to a higher uranium price:

- The ability to ramp-up with fully permitted and developed mines including the La Sal Complex, the Daneros mine, the Henry Mountains complex, the Arizona 1 mine, and the Whirlwind mine.
- The aforementioned large resource projects in New Mexico, Utah, and Wyoming.
- Toll milling third party ores in the Four Corners area when uranium prices rebound. The White Mesa mill is licensed to produce eight million pounds per annum and is currently operating at a fraction of that.



**White Mesa Mill, Blanding, Utah**

The team at Energy Fuels has been very busy over the past year. Here's a compendium of significant accomplishments:

- In July 2014, the company completed divestiture of 50% of the Copper King copper-gold property in southern Wyoming for cash and shares in a private company.
- In August and November 2014, EFR divested of non-core assets to a private company that included the Pinon Ridge mill permit and eight uranium projects along the Utah-Colorado border containing 4.8 million pounds measured and indicated resources of  $U_3O_8$ . In exchange, it received

\$1.9 million in cash, shares, and debt assumption by the purchaser, and retains a toll fee of \$3 per ton on future mill throughput and a 1% royalty on production from the properties.

- In early January of this year, Energy Fuels announced acquisition of Uranerz Energy Corp, an ISR uranium producer in the Powder River Basin of Wyoming.
- In early February, the company announced restart of development activities at its Canyon mine in the Arizona Strip, which hosts an inferred mineral resource of 1.63 million pounds at 0.98% U<sub>3</sub>O<sub>8</sub>. Ore reserves are expected to be depleted at Pinenut in August and mining operations will move to Canyon. All surface development is in place; EFR will deepen the production shaft from 275 to 1475 feet, construct ventilation shafts, and develop it for underground mining over 9-12 months.
- Also in February, the company announced acquisition of a 50% interest subject to a one-time buyable 2% NSR in the Wate breccia pipe deposit in the Arizona Strip from a private company. Uranium One holds the remaining interest. The project has a historical resource of 1.1 million pounds grading 0.79% U<sub>3</sub>O<sub>8</sub>. It is almost fully permitted and located on State Land, which greatly simplifies the permitting and development process.
- In May, EFR announced the acquisition of a large land package and historic uranium resources adjacent to its Roca Honda project, the highest grade and largest undeveloped deposit in the Grants Mineral Belt, the United States' premier uranium district,. The consolidation puts the potentially giant project back together after it became fragmented during the 1980s uranium bust.

Let's discuss two of these acquisitions, the Uranerz merger and the Roca Honda consolidation, in greater detail:

I opine the Uranerz acquisition is a real game-changer for Energy Fuels. The deal is expected to close later this month and once it is completed, EFR will emerge as the leading US-based producer of domestic uranium.

Upon closing, URZ shareholders will own 55% and EFR shareholders 45% of the company. The newco will have 44.1 million shares outstanding, 3.6 million warrants, and 2.9 million options. Shareholder votes for both companies are scheduled for June 18.

After the deal closes, Energy Fuels will manage the company from its Denver office. It recently hired ISR pros Paul Goranson as COO of the Wyoming operations and Bernard Bonifas as Mine Manager. The combined Board of Directors will stand at nine, retaining Dennis Higgs and Glenn Catchpole from Uranerz.

According to company guidance at the end of Q1, the new Energy Fuels Inc will have about \$11.3 million in cash, \$41.3 million in working capital, and \$31.0 million in long-term debt.

Various attributes of the merger include:

- Energy Fuels will be the only uranium company with both conventional and ISR production in the USA.

- Production at the Nichols Ranch ISR facility in the Powder River Basin of Wyoming totaled 200,000 lbs in 2014 and is in a ramp-up stage now.
- The combined company will have six long term uranium contracts at an average price of \$59/lb with 975,000 lbs scheduled for delivery this year for projected revenues of \$57.5 million.
- Based on Q1 2015 production, Uranerz all-in costs are about \$38/lb, giving a healthy margin on its current term contracts that average \$60/lb thru 2020.
- Uranerz brings a pipeline of projects in Wyoming's Powder River Basin in various exploration and permitting stages that will be scheduled for development and expansion of ISR production. They include the Jane Doe, Hank, West North Butte, and Reno Creek projects.
- The combined company will have the largest pounds-in-the-ground base in the USA with 91.0 million pounds of measured and indicated resources and 31.8 million pounds of inferred resources.



**Nichols Ranch Processing Facility, Powder River Basin, Wyoming**

The Roca Honda, New Mexico land and resource consolidation is also a significant event for the company. Energy Fuels expects to complete the deal in mid-summer and acquire the following assets from Uranium Resources Inc (URRE.NASDAQ):

Section 17 fee mineral land includes a shaft to nearly 1500 feet and about 200 feet above the orebody; 36 unpatented lode mining claims, and a lease on 131 claims. The land package totals 4580 acres or over seven square miles. Three historic resources have been compiled on the Section 17 ground only and average 5.0 million pounds at 0.30%  $U_3O_8$ .

In exchange, EFR conveyed \$2.5 million, \$375,000 in EFR shares, a 4% gross royalty buyable at any time for \$5 million, a royalty interest on certain properties within Peninsula Energy's Lance project in the Powder River Basin of Wyoming, and its Church Rock, New Mexico claims.



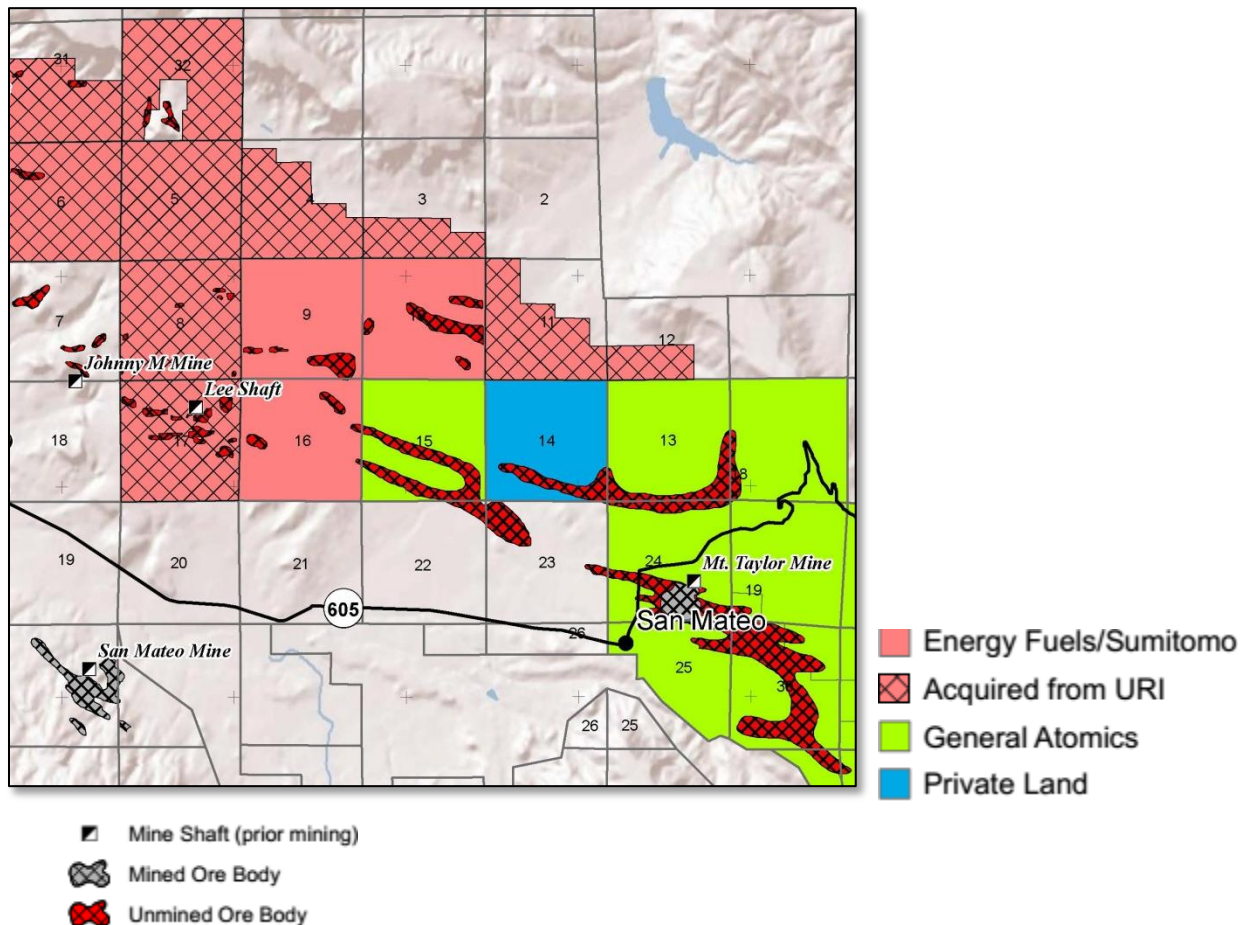
Energy Fuels' Roca Honda land holdings in sections 9, 10, and 16 host a total of 25.8 million lbs of qualified resources in all categories with an average grade of 0.47%  $U_3O_8$ . These lands have significant exploration potential, as illustrated by the ore trends on the map below. Many of the known occurrences are only partially drilled out.

The consolidation of the Roca Honda project and, perhaps most importantly, access to the existing shaft will certainly enhance economics of the project thru reduced capital costs and a shorter timeline to production.

Roca Honda is proximal to the past-producing Mt. Taylor mine, which hosts over 80 million lbs of historic resources grading > 0.40 %  $U_3O_8$ . Mt. Taylor is owned by Rio Grande Resources, a subsidiary of privately-held General Atomics.

EFR's White Mesa mill is 250 miles away by paved highways and is the likely facility for future processing of uranium ores from these giant and high-grade deposits.

Note that Energy Fuels holds a 60% interest in Roca Honda with its joint-venture partner Sumitomo Metals holding 40%:





### **Roca Honda Project with Mt. Taylor in Background**

Energy Fuels Inc is trading near its 52-week low with a significant catalyst on the horizon, the pending acquisition of fellow USA uranium producer Uranerz Energy Corp. It seems to me that activity in the stock has been tempered activity due to the inherent uncertainties accompanying any M&A deal of this magnitude.

When finalized, the combined company is expected have increased exposure to both institutional and retail investors globally. This will increase the likelihood of the company being included in the Russell 3000 Index and also to have greater weighting in the Global X Uranium ETF (URA.NYSE). These listings should result in a significant increase in liquidity.

Since a major acquisition, corporate reorganization, financing, and NYSE Market listing occurred in Q4 2013, the company has shown a tendency to fall and rise quickly. Witness its rapid rebound from a 52-week low at \$5.31 in late November 2013 to its high of \$11.85 in late February 2014.

For these reasons, I opine that the combined Energy Fuels will be significantly revalued upon completion of the Uranerz deal later this month. Perhaps that will be an opportune time to initiate a position or add to a current position in EFR.

I do not view this stock position as a quick trade for profit, although that is certainly a possibility. My personal view is that Energy Fuels is a company that I want to hold as a call on the inevitable rise in uranium prices amid worldwide nuclear energy growth in the mid- to long-term. Its track record of success during a uranium bear market gives me confidence that better days lie ahead when prices inevitably rebound.

Please note that I am a long-time, committed shareholder of both Energy Fuels Inc and Uranerz Energy Corp and the former is a paying sponsor of my website. I am very pleased with this transaction and anticipate EFR's glowingly bright future as it becomes the USA's largest domestic uranium producer.

Please do your own due diligence and see if you agree with my assessment.

Ciao for now,

Mickey Fulp  
Mercenary Geologist



**Acknowledgment:** Gwen Preston is the editor of [MercenaryGeologist.com](http://MercenaryGeologist.com).

The [Mercenary Geologist Michael S. "Mickey" Fulp](http://MercenaryGeologist.com) 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.

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