Michael S. (Mickey) Fulp
M.Sc., C.P.G.

MercenaryGeologist.com
contact@mercenarygeologist.com

Mercenary Alert: Uranium Mining Company on Sale

A Special Alert Musing from Mickey the Mercenary Geologist

For Subscribers Only

Contact@MercenaryGeologist.com

December 27, 2013

In a recent musing, I discussed the supply and demand fundamentals of uranium (**Mercenary Musing, December 16, 2013**). The continuing shutdown of Japan's 50 operable nuclear power plants, which has taken an estimated 12% of worldwide demand off the market, is a prime reason for today's prices and depressed market.

Uranium spot prices are languishing at about $35/lb and current off-take contracts are averaging about $50/lb. Ux Consulting, my go-to source for all market news and analysis, recently estimated that 40% of global uranium mine production is not economic at current spot prices.

But as all good capitalists know, the cure for low prices is low prices and vice versa. There are two pertinent questions to ask:

- When will uranium prices recover?
- What will be the catalyst that sparks a revival?

I have no firm idea regarding the timing of recovery but opine the restart of a few shuttered Japanese reactors likely will stimulate prices.

In the meantime, current uranium mines are beginning to cut back or shut down production in free market countries and new mine developments are being postponed or cancelled. With production expected to decline significantly in the next two years, supply-demand fundamentals should become more balanced.

Folks, uranium stocks are on sale and I see a potentially lucrative contrarian play emerging in uranium mining space.

I have previously stated an unwillingness to take on any geopolitical risk in the uranium sector. Therefore, I consider only North American uranium explorers, developers, and producers operating in established districts in the Western U.S. and South Texas or in Canada's Athabasca Basin as viable options for my speculative dollars.

The United States of America gets 19% of its electricity from nuclear power plants. We currently have 100 operating reactors and five are under construction. Our 2013 U_3O_8 consumption will be about 51 million pounds, but only 4.5 million pounds, or about 9%, is produced domestically. With 55% of the world's uranium mine production coming from unstable, corrupt, or unfriendly countries (Kazakhstan, Niger, Russia, Ukraine, Uzbekistan, China), I think it is essential that the US become more self-sufficient in uranium.

Many uranium miners are on sale, but I suggest that domestic uranium producer **Energy Fuels, Inc (UUUU.MKT; EFR.TSX)** might be the best bargain around right now.

Energy Fuels is the only conventional uranium miner in the United States and will contribute about 25% of the country's annual domestic production in 2013. It is a fully-integrated producer of uranium and vanadium with the only currently operating mill in the United States. EFR currently has two producing mines, a number of mines on standby, and a diverse portfolio of development and advanced exploration projects in the most productive uranium districts of the Western United States.

In addition, Energy Fuels has one of the largest uranium resource bases in the US and is highly-leveraged to the price of uranium. When prices recover, it is uniquely positioned among domestic miners to increase production quickly above its current 1.2 million pound base from mines currently on standby and or in the final stages of permitting and development. Based on a price of $75/lb, EFR's mid-term vision is to produce six million pounds of U_3O_8 a year; most of that increase will come from new development projects in New Mexico, Utah, and Wyoming.

The company has been especially active during the past few months with the following accomplishments:

- Acquisition of uranium developer and former MercenaryGeologist.com sponsor Strathmore Minerals Corp (**Mercenary Musing, August 19, 2013**);
- $5 million bought-deal financing;
- 50:1 share rollback;
- New York Stock Exchange Market listing (MKT).
- Strategic business relationship with Korean Electric Power Company (KEPCO), the largest electric utility in South Korea and one of the worldwide leaders in development of nuclear power projects.

Energy Fuels figures to attract wider retail and institutional investor bases in the United States with its recent MKT listing, generate an increase in liquidity, and achieve a higher valuation in line with its domestic uranium mining peers such as Uranium Energy Corp (UEC.MKT), UR Energy (URG.MKT), and Uranerz Energy (URZ.MKT).

EFR has 19.6 million shares outstanding, $16.7 million in cash, $22.6 million in debt, and $36.8 million in working capital. Today's close at $5.61 gives a market capitalization of $110 million. Its 52-week high and low are $11.25 and $4.56 respectively. The high came upon final approval of the takeover of Strathmore Minerals and the low likely reflects tax-loss selling on an abnormally high-volume day in November.

The company has about 2.0 million options and 1.1 million warrants; all are currently out-of -the-money. In addition, it has unsecured, subordinated debentures, the aforementioned $22.6 million, at a current interest rate of 8.5%, and convertible into about 1.5 million shares at C$15.00 by mid-2017. Therefore, fully-diluted shares stand at 24.2 million.

Officers and directors control 1% of the stock, KEPCO owns about 9%, and major institutional holdings are estimated at 10%, including Global X Management, Dimension Investment Fund, Dundee, and Pinetree.

Energy Fuels Inc has an impressive cadre of mining professionals at the helm. It is led by Stephen Antony, a mining engineer with over 38 years of experience and most of that with the uranium industry. Prior to assuming the role of CEO in April 2010, he was COO and responsible for all daily operations. I first met Steve at a uranium conference in 20111 and have talked with him on multiple occasions.

Engineer Harold Roberts is the current COO and also served in that role for predecessor Denison Mines USA as manager of the White Mesa mill. Before that he was President of Energy Fuels. Engineer Gary Steele is Senior VP and Marketing Director and responsible for economic evaluations and uranium marketing to utilities. CFO Graham Moylan is an investment banker and accountant with experience in uranium sector financings and mergers and acquisitions. Attorney David Frydenlund is General Counsel and Corporate Secretary and responsible for legal and regulatory matters. He came to the company from a similar role at Denison Mines. Daniel Zang is Controller and previously held that position with Cyprus Minerals and General Moly.

The Board of Directors currently stands at 11 members with some gaining seats thru the company’s acquisitions and financing activities over the past several years. They include representatives from Denison Mines, Dundee Capital Markets, and Pinetree Capital, and also new directors from KEPCO and Strathmore Minerals Corp. It seems likely to me that the board will be reduced in size in the coming months.

EFR has an integrated pipeline of uranium mining, milling, development and exploration properties in many of the significant past- and currently producing districts of the Western United States. These include the White Mesa mill near Blanding, Utah and properties in the Arizona Strip, the uranium-vanadium districts of SW Colorado and SE Utah, the Grants Mineral Belt of New Mexico, and the Gas Hills and other basins of Western Wyoming.

Energy Fuels' foremost asset is the White Mesa mill. It is the only fully-licensed and operating conventional uranium mill in the United States and therefore, gives the company a virtual monopoly on all domestic conventional mining. The mill has a licensed capacity of 2000 tons per day, and can produce up to eight million pounds of uranium per annum. White Mesa also has a circuit to recover vanadium from Colorado Plateau ores, and importantly, North America's only alternate feed circuit to process other uranium-bearing materials. Alternative feeds can include uranium-rich residues derived from UF_6 conversion and uranium-bearing tails from processing at other metal mines.

White Mesa Mill, Blanding, Utah

Major properties include eight mine complexes in Arizona, Colorado, and Utah, five mine development projects in New Mexico, Utah, and Wyoming, a permitted mill site in Colorado, and 22 early-stage development to advanced exploration projects in Arizona, Colorado, New Mexico, Utah, and Wyoming.

EFR’s major uranium assets are shown below:

Energy Fuels Inc: Uranium Mines, Mill, and Properties

EFR’s has one of the largest portfolios of uranium mineral resources in the United States:

	Measured & Indicated					Inferred				
	Tons ('000)	Grade (% U_3O_8)	Grade (% V_2O_5)	Lbs. U_3O_8 ('000)	Lbs. V_2O_5 ('000)	Tons ('000)	Grade (% U_3O_8)	Grade (% V_2O_5)	Lbs. U_3O_8 ('000)	Lbs. V_2O_5 ('000)
Sheep Mountain[(1)]	12,895	0.12%	--	30,285	--	–	--	--	–	–
Henry Mountains	2,402	0.27%	--	12,814	–	1,615	0.25%	--	8,082	--
Roca Honda[(2)]	1,246	0.40%	--	10,070	–	869	0.41%	--	7,136	–
Marquez	3,611	0.13%	--	9,130	–	2,160	0.11%	--	4,907	–
Gas Hills	2,300	0.13%	--	5,400	–	3,900	0.07%	--	5,500	–
Juniper Ridge	4,140	0.06%	--	5,208	--	–	--	--	–	–
San Rafael	758	0.22%	0.30%	3,405	4,596	454	0.21%	0.28%	1,860	2,510
Dalton Pass	1,623	0.10%	--	3,071	–	908	0.08%	--	1,530	–
Sage Plain	643	0.23%	1.39%	2,834	17,829	49	0.18%	1.89%	181	1,854
Nose Rock	2,594	0.15%	--	2,594	–	167	0.14%	--	452	–
Energy Queen	224	0.31%	1.35%	1,396	6,030	68	0.27%	1.33%	366	1,804
Whirlwind	169	0.30%	0.97%	1,003	3,293	437	0.23%	0.72%	2,000	6,472
Sky	669	0.07%	--	948	–	55	0.05%	--	54	–
Daneros	--	–	--	–	--	156	0.21%	--	661	–
Canyon	--	–	--	–	--	83	0.98%	--	1,629	–
Pinenut	--	–	--	–	--	95	0.54%	--	1,037	–
Arizona 1[(3)]	--	–	--	–	--	46	0.64%	--	594	–
EZ Complex	--	–	--	–	--	224	0.47%	--	2,105	–
Other Properties	158	0.20%	0.99%	642	3,104	28	0.22%	0.80%	120	443
TOTAL	33,432			88,800	34,852	11,314			38,214	13,083

Energy Fuels Inc: Uranium and Vanadium Resources

In the recent corporate presentation, Energy Fuels Inc markets itself as a “unique call option on nuclear energy”. I agree wholeheartedly for a variety of reasons, some of which are based on uranium supply and demand fundamentals as outlined in my recent **Mercenary Musing**.

Other factors are specific to EFR and its White Mesa mill:

- White Mesa is the United States’ only conventional uranium mill.
- It has North America’s only alternative feed circuit for processing high-grade uranium products from sources other than conventional uranium mining.
- It has excess capacity and significant growth potential that historically has included custom toll processing from many small mines and ore stockpiles in the region.
- It has the capability to process and recover vanadium from the uranium ores of the Colorado Plateau.

In addition, EFR is well- positioned in the short- to mid-term to weather the current depressed price of uranium.

- It has three utility off-take contracts priced significantly higher than the current spot or term uranium price.
- These term contracts are for two to four years and are at or near their floors with an average price of $58.42/ lb U_3O_8 for 2014.
- In 2014, the company will sell about 800,000 lbs U_3O_8 to service these agreements.
- One contract allows the company to purchase and provide up to 300,000 lbs of U_3O_8 per annum from the spot market. Spot price is currently about $35, facilitating a substantial profit at essentially no risk.

Energy Fuels corporate plans for 2014 include the following:

- Supply a combined 400,000-500,000 lbs from two Arizona mines, current stockpiles, and alternative feed materials. Complete contract obligations with purchase of 300,000 lbs on the spot market.
- After supplying contract obligations, place all mines and the mill on standby in mid-2014. It will continue to accept and stockpile alternative feed materials for processing in 2015.
- Advance its Wyoming development projects. EFR expects permitting to be in place for Sheep Mountain in 2015 and envisions a second production center in the mid-term consisting of open-pit mines at Sheep Mountain, Gas Hills, and Juniper Ridge with processing at a central heap-leach and solvent extraction facility in Western Wyoming.
- Sell non-core assets. Likely candidates include a low-grade copper-gold resource in SE Wyoming and uranium deposits in New Mexico where EFR has a minority resource position. All of these properties were acquired thru takeover of Strathmore Minerals.

With 88.8 million pounds of 43-101 qualified measured and indicated resources, 38.2 million pounds of inferred resources, and a market capitalization of $110 million, Energy Fuels is valued at 87 cents per pound-in-the-ground U_3O_8. This is severely discounted with respect to its three domestic uranium mining peers, which range from $2.40 to $6.10 per pound. It can be argued that these are ISR producers with low-cost operations while EFR is a conventional miner that is perceived to operate at much higher cost.

However, please note that Energy Fuels is also a low-cost producer with its high-grade Arizona Strip and Colorado Plateau uranium ores, vanadium production credits, access to extremely high-grade alternative feed materials, comfortably-priced mid-term contracts, option to supply a significant contract via spot market purchases, and a solid corporate plan to mitigate depressed uranium prices. Energy Fuel's Q2 2013 MD&A statement indicated "adjusted cost of production … net of vanadium credits" in the $33/lb range, which is in line with two domestic ISR producers.

I have written and spoken often about my requirement for a mining company to be in the lowest quartile of world production costs in order to withstand cyclical periods of low metals prices. With its mid-term contracts at favorable prices, ability to standby and startup mine production quickly, processing of ore from other mines and alternative uranium-bearing materials, and a steady pipeline of mine, development, and exploration properties, I opine that Energy Fuels is situated to survive today's low uranium prices and prosper when the tide inevitably turns.

Remember the adage: The cure for low prices is always low prices.

I see EFR as well-positioned within my vision for uranium, which is based on world growth of nuclear energy as a source of base load electricity, continuing annual deficits of mine supply to world demand, and shortages of yellowcake that will result in stronger uranium prices in the mid- and long-term.

Folks, I think this is a uranium company on sale.

Its substantial current production at strong margins, potential to vastly increase production quickly from mines on standby, a pipeline of large-scale development projects, and strategic positioning as the only conventional mine-mill uranium company in the United States are reasons to consider Energy Fuels.

All contrarian speculations carry risk. EFR has met its 2013 off-take contract obligations and given low spot prices, has been able to stockpile production and not sell uranium into the depressed market this quarter. In addition, the company has indicated it will take a substantial mark-to-market write-down reflecting the current low price. Therefore, its Q4 reports will show a significant loss. Although analysts and market professionals are no doubt aware of this fact, retail investors could react negatively, resulting in downside risk to the current share price.

However, the major risk with this type of play is the timeframe for commodity price recovery. If the uranium price does not rebound within the next few years, Energy Fuels Inc could encounter low operating margins and cash flow difficulties. That said, most mining analysts agree with my assessment of a mid-term recovery, perhaps concurrent with a few Japanese reactor restarts.

Note that Energy Fuels is a sponsor of my website and I am a shareholder via its acquisition of Strathmore Minerals Corp. Therefore, the favorable opinions expressed herein are biased by my financial involvement with the company.

Please do you own diligent research and determine in Energy Fuels Inc meets your criteria as a call option on the future of domestic uranium mining and nuclear energy.

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.

Contact: **Contact@MercenaryGeologist.com**

Disclaimer and Notice: I am a shareholder of Energy Fuels Inc and it pays a fee of $4000 per month as a sponsor of this website. I am not a certified financial analyst, broker, or professional qualified to offer investment advice. Nothing in any report, commentary, this website, interview, and other content constitutes or can be construed as investment advice or an offer or solicitation or advice to buy or sell stock or any asset or investment. All of my presentations should be considered an opinion and my opinions may be based upon information obtained from research of public documents and content available on the company’s website, regulatory filings, various stock exchange websites, and stock information services, through discussions with company representatives, agents, other professionals and investors, and field visits. My opinions are based upon information believed to be accurate and reliable, but my opinions are not guaranteed or implied to be so. The opinions presented may not be complete or correct; all information is provided without any legal responsibility or obligation to provide future updates. I accept no responsibility and no liability, whatsoever, for any direct, indirect, special, punitive, or consequential damages or loss arising from the use of my opinions or information. The information contained in a report, commentary, this website, interview, and other content is subject to change without notice, may become outdated, and may not be updated. A report, commentary, this website, interview, and other content reflect my personal opinions and views and nothing more. All content of this website is subject to international copyright protection and no part or portion of this website, report, commentary, interview, and other content may be altered, reproduced, copied, emailed, faxed, or distributed in any form without the express written consent of Michael S. (Mickey) Fulp, MercenaryGeologist.com LLC.