

SPROTT MARKET STRATEGIST: EXPLOSION IN NUCLEAR ENERGY DEMAND COMING

A Conversation with Kevin Bambrough
Sprott Asset Management Market Strategist

Part One of a Two-Part Interview



Sprott Asset Management Market Strategist Kevin Bambrough believes we are now in the second leg of the uranium bull market.

Summary: Sprott Asset Management uranium expert Kevin Bambrough talked with us about the “second leg” of the current uranium bull market. He sees a massive nuclear build up heading our way with “the environmentalists leading the charge.” This is part one of a two-part interview.

StockInterview:

Price forecasts on spot uranium are widening. Some insiders have predicted uranium prices may drop back into the \$30/pound range; others, such as yourself, continue to suggest \$50/pound or higher. Any comments on the forecasts others are making?

Kevin Bambrough:

There are many people forecasting uranium prices now. It's important to consider their track record of forecasting prices. Look at the contracts that have been written by many companies in the industry, over the last number of years. Anyone who had ceilings, or had signed fixed-priced contracts, has been punished. Very few people in the industry predicted what has happened. Looking forward, I think that in our view, the cost of production of current producers isn't going to be as relevant as it has been in the past. It will be the more marginal, much higher cost producers who will be setting the price.

StockInterview:

Isn't there a sense of false optimism that “projects in the pipeline” will ensure an ongoing stream of uranium oxide for the nuclear fuel cycle?

Kevin Bambrough:

There are a lot of people looking at the supply situation going forward while underestimating future demand. They are very optimistic that mining projects are going to go as planned. We had recent news that Cigar Lake had a problem. There was a flood there. There's a couple million pounds shortfall to most people's models for at least two years. All because of one mine's six month delay.

StockInterview:

Would that have the kind of impact the McArthur flooding (Athabasca Basin, Cameco) had on the spot uranium price a few years ago?

Kevin Bambrough:

I think it could. It was forecast to go up to 18 million pounds of production. That would have been ten percent of the world's current consumption. Cigar Lake would need to ramp up over a three year period, once it gets started. Now, there is a six month delay. What if it's delayed a year? That really changes the production profile for the next decade. There are many projects that could see delays. The mining business is always full of delays. Remember that when we bring on new nuclear plants, they take on average about 1.6 million lbs when commissioning. What will happen, if in a decade, we bring on just 10 or 20 reactors each year? That's another 16 to 30 million pounds per year of demand just because of the start up.

StockInterview:

Does this mean the current uranium bull market still has strong legs?

Kevin Bambrough:

I think we're entering the second leg of the bull market here. It is going to move away from a supply shortage story, where we focus on the fact that we only get about 60 percent of the current consumption from mines, while the inventories are being worked off. Now, we're moving into a situation where we're seeing an explosion in demand growth. Just a couple of years ago when we first started investing in uranium, we could see probably about a dozen nuclear facilities being planned for construction throughout the world. Now we've got well over 100 being planned. It seems there are new additions and talk of more additions every day.



Dr. James Hansen testifying before the U.S. Senate and issuing his warning about global warming in 1988.

StockInterview:

How do you envision this nuclear buildup rolling out?

Kevin Bambrough:

I don't think it's unreasonable to think, looking ten to twenty years out, there are going to be a lot of countries that will be trying to get in the position that France is in, with a much higher percentage of their power coming from nuclear generation. We could see a move to where maybe 50 percent of global energy production or more could eventually be supplied by nuclear. There is nothing else that can really step up and fill the void and take care of this problem that we're having. France produces 78 percent of their electricity from nuclear. Why isn't that reasonable for others? Look out a decade or two, and it doesn't appear like we're going to have the oil and the gas in order to handle our needs. Obviously we can do more with coal, but if we're going to keep using coal we've got to put in place technology to take care of the carbon dioxide sequestration. If you want to have a stable, secure supply of electricity, it seems that you're going to have to go with more nuclear or eventually with these new coal technologies. I think there is going to have to be a balance of both, because the oil and gas just isn't going to be there.

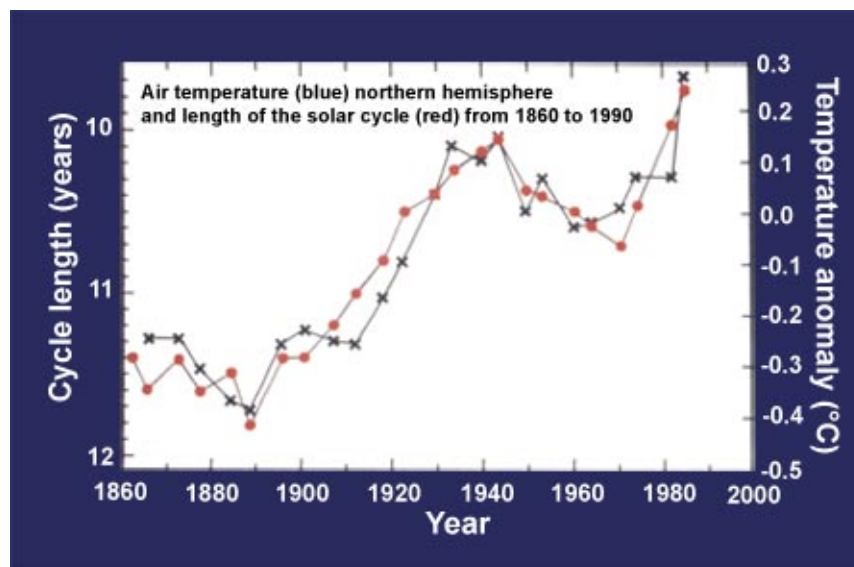
StockInterview:

What do you think is the catalyst for this anticipated growth in nuclear energy demand?

Kevin Bambrough:

The most interesting thing is the fact that some environmentalists are leading the charge to go more nuclear. It's because they realize nuclear energy is the only practical alternative and because of the situation with the carbon dioxide (CO2) levels. There have been some recent reports about CO2 levels reaching 381 parts per billion, just spiking out of the range that has kept the world in a relatively stable environment for the last 400,000 years. If you look at the work of people like James Hansen, the correlation between CO2 levels and temperature is undeniable. Basically, mankind has increased the CO2 levels beyond a level that hasn't been seen in over a million years. We are just starting to see the weather impacts. There are problems with droughts across the world as well as elevated hurricane activity. Going nuclear on a mass scale is starting to become recognized as one of the only ways to have a real impact. I think what we're going to see is an unprecedented build out in nuclear capacity throughout the world in the coming years and decades. I'd equate this to what happened when we went from using oil for just lamps and home heating to using it as a transportation fuel. What's going to happen with the people who have the higher quality uranium reserves and lower cost production? They are going to be able to reap massive profits over the coming decades.

(Editor's Note: Click [here](http://www.giss.nasa.gov/research/features/altscenario/) to read an essay by Dr. James Hansen, entitled "Global Warming in the 21st Century" <http://www.giss.nasa.gov/research/features/altscenario/> and his commentary on greenhouse gases: <http://www.ncpa.org/ba/ba299.html>)



Carbon dioxide levels may have already affected temperatures.

StockInterview:

Looking ahead, do you think we'll see more deals between a small uranium producer, such as Uranium Resources (OTC BB: URRE) and the Japanese multi-national conglomerate, Itochu Corporation?

Kevin Bambrough:

I have no doubt that it's going to continue to happen. More importantly, I've heard that some of the major builders of nuclear facilities around the world, companies such as Areva are quite concerned about the availability of supply going forward. When these companies are talking to countries and utilities that potentially could contract to build nuclear facilities, they're basically being told that buyers want uranium supply assurances, or they aren't going to give an order to buy a nuclear facility. I've heard they are looking to do joint ventures or at least contract with emerging producers to try to get future supply. Then, they will be able sell their nuclear technology to countries and ensure supply.

StockInterview:

Will the Chinese be satisfied with the uranium they plan to buy from Australia, or will they have to tap into uranium production from another or other countries?

Kevin Bambrough:

I think that the Chinese will probably look elsewhere as well. Countries have strategic oil reserves. Why shouldn't they have strategic uranium reserves to supply their nuclear reactors? It makes sense to have a good stockpile of uranium considering the relative cost of nuclear power versus anything else. I don't think that the nuclear power industry should operate on a just in time basis, considering the costs and the risks of making sure you can secure supply. Don't get me wrong. There is plenty of uranium in the world, but we're just going to have to pay up for it. I believe we're going to consume lot more than what we're consuming nowadays - a decade or two out. The world is waking up to the reality of peak oil production, and how it is going to affect all aspects of energy production.

StockInterview:

How much of a factor will Russia play in the nuclear build up?

Kevin Bambrough:

Looking at some of the recent statements made by Russian officials, it's completely clear to me that we've been correct in what we've been thinking for a long time: the HEU agreement (to deliver highly enriched uranium and have it blended down) is probably not going to be renewed. The Russians are planning to make nuclear technology a key export for them, really as a value added product to go with uranium production. They desire to be able to offer a complete solution, not just uranium, but the actual building and technology around the nuclear facilities themselves. They will also have growing uranium demands domestically and have voiced concern about being able to meet their own needs beyond 2015.

StockInterview:

But nuclear energy critics claim all of these power plants won't secure financing and most plans are just pipe dreams never to be built.

Kevin Bambrough:

Two years ago, the critics said there would never be any more nuclear plants built in the U.S. People used to say nuclear was over for Germany, and that many countries would exit nuclear power. Now we're seeing the exact opposite. We're seeing proposals being done, incentives put in place, and a multitude of projects moving ahead. If what the leading scientists from NASA, the NOAA and from many organizations around the world are saying about global warming, and the acceleration we've recently seen continues, people are going to be begging to have more nuclear facilities and cut CO2 emissions. The environmentalists will be leading the charge.



Australia and China sign a uranium pact.

StockInterview:

How long will it take before the proposed nuclear build up impacts the uranium mining companies?

Kevin Bambrough:

The actual build of all this takes time. I think the increase in the positive perception, of the nuclear industry is going to continue to accelerate. All demand for uranium can come from just the planning stage for nuclear power plants, as companies look forward and try to contract future supply. Ultimately, that's what will keep driving the uranium price higher.

StockInterview:

How seriously is the nuclear industry taking the global build up?

Kevin Bambrough:

I think the industry is starting to take it very seriously. That's why the uranium price keeps pushing higher. People are going around trying to contract for uranium, and they are finding it more difficult.

People are also starting to realize that as you have problems, such as the McArthur River flooding, which got the uranium bull market jump started, and now a problem at Cigar Lake, you really should have a good build up of inventory in order to protect yourself in this environment. Especially when the relative cost of having to switch off a nuclear facility to go to something else in a pinch is multiples higher.

About...

Kevin Bambrough

Market Strategist, Sprott Asset Management

Kevin Bambrough joined Sprott Asset Management Inc. as a Research Analyst in August 2002. He has worked in the investment industry for over 5 years and adds greater depth and analysis to the investment team due to his diverse background and experience across various industries. Prior to joining SAM, Kevin worked as a Microsoft Systems Engineer for five years. Since 2003, Kevin has focused his analysis in the coal and uranium mining sectors for the Sprott Investment Team.

Websites and Trading Symbols of companies mentioned in this report:

[Uranium Resources \(OTC BB: URRE\)](#)

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