

WHICH URANIUM DEVELOPMENT COMPANIES ARE WELL POSITIONED FOR THE INCREASED DEMAND?

A Conversation with Kevin Bambrough
Sprott Asset Management Market Strategist

Part Two of a Two-Part Interview



Sprott Asset Management Market Strategist Kevin Bambrough names his favorite uranium development companies.

Summary: Sprott Asset Management uranium expert Kevin Bambrough talked with us about the “second leg” of the current uranium bull market. Bambrough names his favorite uranium companies, where he believes there is still room for growth.

StockInterview:

How does the major nuclear energy build up you envision impact uranium mining?

Kevin Bambrough:

I think, with the passage of time, all types of mining will again be done again in the United States. They're going to need the supply. There is no alternative. If you look at Energy Metals Corporation (TSX: EMC), part of their plan is to start with some ISL operations, some of which will come at a facility that's already fully permitted. Then eventually, they're going to try to move into places like New Mexico, where I think with the passage of time, common sense will prevail and people will become more pro-mining for uranium.

StockInterview:

We now have about ten times the number of uranium companies, some purporting to be a “uranium company,” than when we first started covering this sector. How is this sector going to play out?

Kevin Bambrough:

It's been very difficult to try and follow what everyone is doing in this space. Right now, the uranium story is looking so good. It's still relatively early that anyone seems to be able to raise some money, tell a story and perform well. It's unbelievable how the sector has performed this year. With the passage of time, the guys with the real resources, who can also develop them and produce, are going to do well. The other guys are going to have to keep coming back to the market, raising capital, raising capital and diluting their shareholders in order to try to drill and find something. Of course, there is going to be the odd one here and there that actually strikes something big. It'll give people hope but, that's not the way we want to invest.

StockInterview:

Have the uranium stocks gotten out of control? Are we looking at another train crash like the internet stocks of a few years ago?

Kevin Bambrough:

The majority of stocks in the uranium space, we will not own. We only own a really select few, probably just over a dozen. We have some explorers, we have some producers and we have some, what we believe to be emerging producers and we're sticking with that mix.

StockInterview:

So which companies do you like?

Kevin Bambrough:

Obviously, there is a lot of mud slinging that goes on in all sectors of the mining business. You talk to different people, and they say, "Oh this is going to be higher cost, that is going to be higher cost, and our properties are better than their properties." From where I sit, Energy Metals (TSX: EMC) was one of the companies to get in there early, and pick up a lot of known resources and databases. I think they've done a great job of doing exactly what they said they were going to do. We started funding them in the early days. Those are the (types of) companies I want to stick with.

StockInterview:

What do you like about Energy Metals?

Kevin Bambrough:

I'm happy to say that we're a very large shareholder of Energy Metals, and I continue to love the story. The most recent presentation they gave shows what the company will look like after they fully complete the Standard Uranium and Quincy Energy mergers. The combined entity in their presentation shows to have about 236 million pounds of uranium resources, I believe, and a market cap of around C\$360 million with \$60 million in cash. We're still a shareholder of Paladin (TSX: PDN). I think we're up about 40 or 50 times on the first shares we bought. If you compare the two, you've got a market cap of close to C\$2 billion on Paladin with around 180 million pounds. If you look, you'll notice the real big move in market cap occurred, when Paladin started to get close to production and they signed contracts. Now Energy Metals has about one-fifth of the market cap and a fully permitted ISL facility down in Texas. They're at the point where they're going to sign the contracts and move forward into production. I think people are going to wake up and start giving them more credit. I think that positive permitting developments will continue to occur in places like New Mexico. Obviously, the friendly environment in Wyoming for bringing on production will make Energy Metals perform very well going forward. It's going to be fantastic for shareholders if it can duplicate the move that Paladin has over the last year or so.

StockInterview:

You said earlier "common sense would prevail" in New Mexico. How does that impact Energy Metals?

Kevin Bambrough:

New Mexico is more in the back burner for now, but I think the stock (Energy Metals) will continue to perform well as the regulatory environment continues to improve in the area. I should touch on Strathmore Minerals (TSX: STM). We've been please to see they've been bringing out their (National Instrument) 43-101's on a couple of their (New Mexico) properties and show an increase in reserves. I believe they're doing some work right now on their Dieter Lake project up in Quebec that could be interesting. They've got some good resources and reserves. I think, at some point, someone is going to want to cut some deals with them, or they're going to just keep chugging along and bringing things forward.

StockInterview:

You were excited about Tournigan (TSX: TVC) the last time we talked. How is that one turning out?

Kevin Bambrough:

Tournigan is really developing into a great story. Originally, when we first got into this, it looked reasonably valued and interesting on its gold prospects. When they picked up deposits in Slovakia, we got in deeper. I think the story just keeps getting better as we look more into what they actually may have in these properties. They've also brought on a new hire, who was the head of the Slovakia uranium program years ago. He's joined the team and he's basically said that the Jahodna district is probably not just a 3km strike length but probably more of a 7km potential. The current resource estimates are only based on 500 meters of the zone. They're going to start stepping out and drilling it. We're hoping it could get much bigger. It's open at depth as well. There is also reasonable chance this could become a large uranium district. They've found out there were a lot of other targets in the area, in the past. They are going to try to work these targets as well. Slovakia is a major past producing country. A lot of its power currently comes from nuclear. They have two other properties in Slovakia with resources. They're going to drill and are hopefully going to show better grades and larger resources, with time. Of course, you're always hopeful, no guarantees, but our experience is that in the uranium business: As you go and drill old properties, redo old drill holes with larger cores, you get better recoveries and can show higher grades. That seems to have been the case for both Tournigan and Western Prospector (TSX: WNP). I should also mention that on the Jahodna property, it's interesting that, not only did the uranium grade jump but also the molybdenum grade jumped up substantially to where this is now some very valuable rock.

StockInterview:

Any final recommendations?

Kevin Bambrough:

SXR Uranium One (TSX: SXR), I think it's a great story. There's no doubt that the uranium is there, but some people debate about how difficult the mining is going to be and what the cost will ultimately be. But they've got a good gold credit in there to help bring down the overall cost. Again, we believe the uranium price is going to be much higher than most people believe for a lot longer. We love investing in companies with huge resources and plenty of leverage to both uranium and gold.

StockInterview:

Do you still see some of your uranium holdings, certain ones as cheap, still in play, and to be looked at?

Kevin Bambrough:

Most definitely, and we'll be helping to finance some all the way to production.

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.

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Websites and Trading Symbols of companies mentioned in this report:
Energy Metals Corporation (TSX: EMC)
Paladin Resources Ltd (TSX: PDN)
Strathmore Minerals (TSX: STM)
Tournigan (TSX: TVC)
Western Prospector (TSX: WNP)
SXR Uranium One (TSX: SXR)