

## RUSSIANS EXPECTING \$100/POUND URANIUM

### Sprott Market Strategist Believes New Reactor Inventory Could Take Price Higher



*On Tuesday, September 19th UxC announced a new highest ever spot uranium price.*

By James Finch

[Russia's Nuclear Progress in 2006](#)

In a speech at the 50th annual regular session of the International Atomic Energy Agency (IAEA) General Conference in Vienna, IAEA chief Mohammed Elbaradei confirmed what many of us knew in praising China and Russia, which "currently have the most ambitious plans for short-term nuclear expansion." Nine months ago, he might not have made that statement.

Today, Russia has emerged as one of the more vocal proponents for, and aggressive strategists in, the full spectrum of the nuclear fuel cycle. From nuclear waste disposal to uranium mining and enrichment, and in moving forward to construct nuclear reactors, Russia could possibly become an even more significant future player in the nuclear sector than China is envisioned. Russia's civilian nuclear chief Sergei Kiriyenko told Russian television earlier this week, "Russia believes 25 percent of the world's market in nuclear fuel-cycle services, including uranium enrichment, is an optimal share. Technically and technologically, we are well positioned for this."

And whoever control this much market share should help decide the price. "The Russian people I've spoken with seem to think \$100/pound is a given," Sprott Asset Management Market Strategist Kevin Bambrough told us upon his return from the recent World Nuclear Association Conference in London. "If anyone is in the know, or can affect market psychology, it would be them."

Last week, Tenex's general director Vladimir Smirnov announced the formation of a new national uranium exploration and mining company, provisionally named "The Uranium Mining Company." He said it will be established by the end of this year, and hopes to boost production by tenfold over the next two years.

This week, Kiriyenko announced Russia's "international" center to enrich uranium should be built by the end of this year, and ready to launch by early 2007. As announced earlier, the site will be in eastern Siberia at the Angarsk Electrolysis Chemical Plant. The city is located 3,000 miles east of Moscow. Russian President Putin suggested at the current IAEA conference that the international community set up enrichment centers under the supervision of the IAEA to prevent discrimination in access to nuclear energy. Putin's veiled remarks were likely aimed at encouraging Iran's civilian nuclear energy program, for which Russia is rebuilding the Bushehr nuclear power plant. Russia also proposes to joint venture another uranium enrichment center in Kazakhstan with that country.

In early September, Sergei Obozov, head of Rosenergoatom, Russia's nuclear power monopoly, announced plans to start building nine nuclear reactors in 2007. But, it won't stop there. According to an estimate calculated in September by the World Nuclear Association, Russia has 26 reactors proposed or planned by 2020. The country hopes to power 23



*Kalinin Nuclear Power Plant, north of St. Petersburg (Russia).*

percent of its electricity with nuclear energy. This would give Russia nearly 60 reactors, almost as many as France and Japan presently have operational.

Russia is also revamping its nuclear industry, consolidating its civilian nuclear companies into one state-run company. It will be called Atomprom, and the country hopes to compete with other industry giants, such as AREVA, General Electric and Toshiba to build reactors.

This is where the business might get even more interesting. "Pairing of new reactors with uranium contracts could be huge," Bambrough explained. "Companies wanting to build reactors are going around the world, wanting to joint ventures with mining companies to increase uranium sup-

ply for themselves. The reason they want to do that is to offer a full suite of services. They know they can not sell a reactor without supply." Based upon how Russia's nuclear ambitions are unfolding, this is their likely course of action. AREVA, which sells reactors, has mining operations in Canada, Africa and elsewhere.

#### Major Flaw in Uranium Requirement Calculations

In his research Bambrough observed a significant flaw in uranium price modeling. "No one is modeling for 'new reactors' inventory," he pointed out to us. According to the World Nuclear Association's (WNA) most recent report, another 222 nuclear reactors are planned or proposed by more than 20 countries worldwide. And each month those estimates grow larger. At the time of the WNA report, the United States was marked for 23 proposed/planned. This week, that number grew to 30. To remain conservative, we agreed to use a base figure of 160 new reactors before 2020.

"When you start looking at the demand that comes from these new reactors, from what is called the 'initial core,' the numbers some people are using is anywhere between 1.5 to 1.8 million pounds," Bambrough explained. "That is how much is required on the day you commission it. It's prudent to purchase that uranium about four years prior to commissioning your reactor." Prudent nuclear plant operators would prefer to have three to five years of uranium inventory in advance. "That's two million pounds per reactor," Bambrough calculated.

"Spread that number out over a decade, and that means 32 million pounds per year," he said. "If you can imagine, even just one million pounds per all of the 600 (total) reactors, it



*Sprott Asset Management Market Strategist Kevin Bambrough found a pricing flaw in uranium estimates*



**Dominion**

**Exelon**



**Entergy**



could be possible there may be 600 million pounds just for inventories between now and 2020.”

What will that do to the spot uranium price? “I am hearing about deals being done in the \$60s,” Bambrough announced. “I still think we are going to challenge the inflation-adjusted highs (for spot uranium), somewhere between \$110 to \$120/pound, and I think it’s going to test that looking out a couple of years.” Because of the how the energy market has been changing, Bambrough added, “The fundamentals are going to be more compelling than in the 1970s.”

And it is a compelling time for analysts who have been rethinking their pricing of yellowcake. In early September UBS raised its estimates on spot uranium to \$70/pound. Many industry insiders told us uranium would not eclipse \$50/pound this year. TradeTech’s Gene Clark forecast \$55/pound earlier this year; Ux Consulting’s Jeff Combs thought it might go higher before year end. “There’s more and more talk that \$75 and \$80/pound are in the offing shortly,” Bambrough told us.

The combination of “new reactor build” and the pairing of uranium contracts with new reactor sales is not a new one. This helped cause the uranium price rise in the 1970s in the United States. Westinghouse, the world’s leading reactor manufacturer, got into the uranium mining business in the 1970s through a consortium called Wyoming Minerals and began producing uranium through the in situ recovery (ISR) method. Previously, another reactor manufacturer, General Electric, had merged with Utah International to spin off Pathfinder Minerals. Its uranium mining subsidiary filled its requirements.

By dangling uranium contracts as an incentive to purchase a reactor, a reactor manufacturer might overlook existing utilities in need of uranium. “It would be foolish for them to go existing utilities and say, ‘we’d like to sell you four million pounds of uranium and give you a long-term contract,’” said Bambrough. “Why would they want to make just a couple hundreds of millions of dollars, when they can sell the same uranium for the same price to someone, who wants to build a new reactor, and then pack another two billion dollars on the order? That puts the existing U.S. utilities behind the eight-ball, those who aren’t stepping up and buying orders.”

### Tough Times Ahead for Uranium-Seeking U.S. Utilities

Yesterday, David Christian, Dominion Resources’s chief nuclear officer, held a media tour to a site in Louisa County (Virginia) where the company hopes to build a third nuclear reactor at the North Anna power station. He explained to the media that between now and 2025, U.S. energy consumption will increase by about one-third. Another 50,000 megawatts of new nuclear power generation will be needed by 2020 just to maintain the existing energy supply diversity.

The push for new reactors has begun with thirty new nuclear reactors being planned or proposed, according to recent statement made by the Nuclear Energy Institute. That’s about the same number Russia is proposing. China is planning or proposing twice as many. “It is going to be extremely difficult for existing utilities to contract and build up future supply in an environment where there is an explosion in growth of new reactor demand,” Bambrough warned.

Until now, U.S. utilities have nearly always called the shots in uranium pricing. Stiff competition from China, Japan and now Russia has changed the pricing climate as evidenced by the nearly 800-percent price rise in spot uranium over the past six years. “It’s tough to compete out there,” Bambrough explained. “I think the existing utilities are painted into a tighter box than they realize. They have got to get behind funding exploration and development of uranium for themselves. The problem is the U.S. utilities may not want to sign those contracts, but are competing against nations. Countries, like China and Russia, can go in and sign big deals.”

Bambrough brought up Russia again, “They’ve put out notes of late saying they want to invest in mining, where it would be profitable, anywhere in the world. They’ve said they want to seek out junior miners anywhere in the world.” On September 12th, China’s state-owned Sinosteel bought into Australian junior miner PepinNini to develop uranium deposits in northeastern Australia.

This past summer, Russia’s state-owned RosAtom struck a deal with Kazakhstan for extensive uranium mining and ad-

ditional exploration in that country. “When Russia says we’re going to fund uranium development, they’re not thinking about funding uranium exploration and development for the Western World,” Bambrough pointed out. “They want it for their own domestic needs. They want to build and sell power plants. And they’ve got to get supply.” According to the Natural Resources Ministry, if Russia does not act to expand its uranium production, the country’s stockpiles could dry up within a decade.

What advice does Bambrough have for U.S. utilities? “They have to start getting their own supply,” he told us. “They need to have domestic production, and can’t just rely on dwindling down inventories.”

He urged utilities to strike joint ventures with U.S. uranium developers before others do. Bambrough pointed to the recent joint venture negotiations in progress between Uranium Resources (OTC BB: URRE) and Japanese mega-conglomerate Itochu corporation. But what about rumors we’ve heard from uranium developments companies who have been quietly talking with U.S. utilities? “Uranium developers don’t need to sell it,” he advised. “They’re not permitted yet. What’s the point of selling it now, they’re only going to be penalized for it. There may be some companies willing to do a small token deal, as a small percentage of future production, just to show they have a contract.”

And which uranium developers now score high on the Sprott Asset Management Market Strategist’s list? “Right now, Strathmore Minerals (TSX: STM, Other OTC: STHJF) has got to be one of my top stock ideas,” Bambrough said. “I think it’s one of the stocks that should be making new highs. I haven’t been more positive on Strathmore since the first day when we started buying it in our funds. I think it’s time for its next leg up.”

The Itochu joint venture with Uranium Resources is the reason behind Bambrough’s bullishness on Strathmore. “They’ve taken the correct steps to permit some of the best properties – with good grades and some sizeable deposits – and bring up solid resource numbers,” he explained. But the catalyst is the quiet progress now taking place in New Mexico. “The region needs a mill,” Bambrough pointed out. “In the region is Energy Metals (TSX: EMC) and Laramide (TSX: LAM) has some good property,” he added. “The bottom line is Itochu is partnered with Uranium Resources, the property is right next door to Strathmore Minerals, and Itochu knows they need to build a mill. And they want to have production by 2009. In a couple of months, that’s only two years away.”

And by then, will we be wondering how much beyond \$100/pound spot uranium will run?

Websites and Trading Symbols of companies mentioned in this report:		
Strathmore Minerals	<a href="http://www.strathmoreminerals.com">www.strathmoreminerals.com</a>	TSX: STM
Energy Metals	<a href="http://www.energymetalscorp.com">www.energymetalscorp.com</a>	TSX: EMC
Uranium Resources	<a href="http://www.uraniumresources.com">www.uraniumresources.com</a>	OTC BB: URRE
Laramide Resources	<a href="http://www.laramide.com">www.laramide.com</a>	TSX: LAM

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