

WHY IS ERIC SPROTT AN URANIUM BULL?

Leading Fund Manager Favors Oil, Uranium and Gold

Says most uranium deposits not economic at today's low prices

StockInterview.com's Andy Barrett spoke with Eric Sprott, one of Canada's top fund managers and a highly respected Bay Street (Toronto) financial guru. Sprott was pronouncedly bullish on uranium, saying, "I think the whole nuclear industry will ultimately prove to be the key energy source of the future. With demand today at 170 million (pounds), who knows? It might be 300 million pounds in twenty years. The argument in the article we wrote is that based on the previous peaks, prices if you put a normal inflation rate on it, it would equate to something like \$100." Sprott explained why he believes uranium prices may climb higher, saying, "There is obviously a shortage between current mine production and current uranium consumption. In order to correct that imbalance, it would have to be economic to open up new deposits. Most of the deposits that could possibly fill this void are not that economic at these prices. I'm not suggesting that it (uranium) has to go to \$100 to become economical. I don't think that's true. Probably at \$50, it becomes very economic." But Sprott continues to hint that \$100 uranium prices might not be far-fetched, saying, "With demand today at 170 million (pounds), who knows? It might be 300 million pounds in twenty years. The argument in the article we wrote is that based on the previous peaks, prices if you put a normal inflation rate on it, it would equate to something like \$100."



Eric Sprott
Sprott Asset Management Inc.

Considered one of Canada's leading financial asset managers, Eric Sprott's successes clearly demonstrate he has the "Midas Touch."

StockInterview:

Uranium had been inching higher from 2001 until a year ago. Since then, it has soared up the price chart. What is a realistic price for uranium and how high can you envision it reaching?

Eric Sprott:

There is obviously a shortage between current mine production and current uranium consumption. In order to correct that imbalance, it would have to be economic to open up new deposits. Most of the deposits that could possibly fill this void are not that economic at these prices. I'm not suggesting that it (uranium) has to go to \$100 to become economic. I don't think that's true. Probably at \$50, it becomes very economic. The reality is that we've been so slow in getting started that I think the whole nuclear industry will ultimately prove to be the key energy source of the future. With demand today at 170 million (pounds), who knows? It might be 300 million pounds in twenty years. The argument in the article we wrote is that based on the previous peaks, prices if you put a normal inflation rate on it, it would equate to something like \$100. So, it's not that far fetched that we might get there.

StockInterview:

If it takes four or five years, or up to a decade, to get a nuclear reactor going, why are the Chinese building so many so quickly?

Eric Sprott:

Because they've been doing it right. One of the nice things about a centrally organized government is they deal with big issues. Obviously, China has a big issue in energy. If you were sitting over there, you would realize, 'My god, we're starting to import two million barrels of oil. We used to export coal and now we don't export coal. What are we going to do if our growth rate continues to grow at eight or nine percent per year? How much power are we going to need? And where is it all going to come from when there are already shortages of the two most commonly used energy sources in the country?' The option you fall back on is, 'Well, let's go nuclear. We have to go into all of them.' And of course, now they're predicting two nuclear reactors every year for the next ten years. Who knows? Maybe five years from now, that will be four reactors every year. Perhaps when we all realize the extent of the energy shortage.

StockInterview:

How is this going to be sold to North America and Europe in the wake of Three Mile Island and Chernobyl?

Eric Sprott:

The way things might change is now that we have \$50 oil, and the price is almost going up in an unlimited fashion. Now that we've got coal at double and uranium that's gone up, people might finally realize there is not an infinite supply of certain things that we rely on. And that we might have to take a more pragmatic view of the nuclear option. I'm sure that is exactly what certain countries, including Japan, China and France, have done. The other thing is that there is a new reactor where you can't have a meltdown. I'm not technically strong enough to explain it. The uranium is in graphite spheres, and they won't melt down unless temperatures reach 2000 degrees. The highest it ever goes to is 1600 degrees so it's just not going to melt down. It doesn't matter if things are out of control. They won't break down. If that kind of assurance were accepted by the public - if someone could prove that that was the case - I think the nuclear option would be an incredibly viable option. Another thing that would make people think differently would be having brownouts for a while, or hyperinflation because of the shortage of coal, natural gas, and diesel fuel. If we had brownouts for a while, and of course they have brownouts in China, which is probably why they are proactive in moving nuclear along.

StockInterview:

How realistic is the global energy crisis moving toward a Hubbert's Peak, an energy scenario from the year 1970?

Eric Sprott:

My view is that it seems very realistic. I think it is very important that we do go back to 1970. Look at the fact that Hubbert said in 1956 that 1970 will forever peak out (in terms of energy production). Lo and behold, it peaked out! It almost goes down every week in the United States. Almost every week, there is a little less production. This is now with very high oil prices. It looks like his theory, for the geographical area called the United States, worked. Do we think it is going to work in the world? I tend to believe it is. I believe there are projections for Great Britain, which I think are at about 4.2 million barrels/day right now, that in ten years from now, will be down to 700,000. That's what happens when fields go into decline. They go down, and you can not resuscitate them. Everyone who studies the topic knows that no significant discoveries have been made since the 1960s. What I mean by significant are giant oil fields - like Ghawar. For example, people now consider a 100-million barrel field a big deal, and 500 million is great. Well, one hundred million is like 1.2 days of world's supply, and 500 million is eight days supply. You have got to find a lot of those every year. We don't find them. We have hardly found anything. The Caspian Sea? I am guessing it is 500 to 700 million. It's the one thing we point to, the thing in the Caspian Sea, which we have been pointing to for the last three years. Let's say it is 800 million barrels, it is ten days' supply. It's nothing.

StockInterview:

There have been some pretty incredible estimates as to how high oil can go. The highest we're read of stands at \$182 for a barrel of oil and \$15 per gallon of gasoline. Your comments?

Eric Sprott:

When you get into any commodity, where there is a bonafide shortage, there is no limit on the price. There is hardly any limit on the price. Because that last guy still wants that last barrel of oil. I always say, when a commodity is starting to break loose, 'Never put a ceiling on it because you never know where it is going to go.' You look at what is going on in the world oil situation. If I was (in charge of) certain countries, I would probably be changing what I'm doing. You can see China going throughout the world signing agreements with countries to assure oil supplies. It's a government mandate to go out and secure their supplies. I think people at the government

level realize, 'We have issues here that we have to solve. If we don't have assurance of supply, what happens?' One thing about Hubbert's Peak that most people don't go to is the economic impact. Forget the price of oil. What if we produce 83 million barrels today, and in 25 years we have 55 million barrels? What is the world going to do? Do we just have to shut down economies because we don't have a replacement for hydrocarbons?

StockInterview:

Do you think the world governments are prepared for this?

Eric Sprott:

Not at all. They show no interest. In fact, I would say one of the real problems with the democratic process is, unfortunately, too much time is spent thinking about politics. Hardly any time is spent planning for the future.

StockInterview:

On uranium, you recommended a number of uranium companies in your special report. Cameco (NYSE: CCI) seems to be the one many recommend. Other uranium companies seem to be in the exploration or the more speculative category, and now have some momentum because of the bull market in uranium. How strong are the fundamentals in those companies?

Eric Sprott:

I think the fundamentals for some of the companies are spectacular, quite frankly. It's interesting for us because we had the same thing happen in gold, when the price of gold was \$250. We tried to imagine what we should buy if, and when, gold went to \$400, which we thought it would, or \$500 or higher. The real opportunity always lay in, 'We'll find someone who has a large resource that is uneconomic today, but if you move the price up, it becomes quite economic.' I would say Strathmore (TSX-V: STM). They have a large resource already identified. In fact, they are acquiring properties all the time that were identified years and years ago. Yet, at \$20/pound uranium, they probably don't make any sense. But, at \$40/pound uranium, they are likely to make tremendous economic sense. Of course, the value of the shares can almost - not go up exponentially - but they can go up a lot. You finally tip over that breakeven level, and everything after that is profit. We had an analogy like that in gold area, where one guy went out and bought all these deposits that would make sense at \$400 gold. The stock has been a tremendous winner. I think it is up 500 percent. I think the same can happen in uranium. That's why we go to Strathmore and UEX (TSX: UEX). There are a couple drilling in Saskatchewan: JNR Resources (TSX-V: JNN) and International Uranium Corporation (TSX: IUC). There's very few. We've scoured the world for uranium plays. There aren't many. I don't know if there are 20 names.

StockInterview:

How do you feel about precious metals?

Eric Sprott:

We feel pretty good about precious metals. We've been pretty bullish for quite a while now. We have liked the fundamentals for gold for a long time for any one of ten different reasons. The one reason I fall back on, that gives me tremendous comfort, is the fact the world consumes 4,000 tons of gold per year, but mine production is 2,500. Anybody who uses any bit of logic knows, in due course, the price will go up to reflect the imbalance between demand and supply. I don't care how much gold Central Banks sell, ultimately they are going to have no gold. I think people realize that Central Banks have made a big mistake selling their gold.

StockInterview:

The China card keeps driving global commodities as they bring their country more technology. How do you feel about the base metals?

Eric Sprott:

We haven't really gotten involved in the base metals. One of the reason we haven't gone there is we have believed we are in a secular bear market, and there could be a financial implosion. In that kind of scenario the base metals don't do well. But the precious metals can provide safety. That's the distinguishing mark we make between the two. On the China thesis, the demand for all of these things would go up. Our problem is we still expect some fallout in the financial arena, which ultimately would even affect China. We feel more comfortable with the precious metals, and we feel more comfortable with energy. Simply, energy demand in an economic implosion is pretty inelastic. It doesn't fall off the table. Demand for zinc, lead, copper, and aluminum can fall quite precipitously if there was an economic slowdown.

StockInterview:

Are you expecting an economic slowdown?

Eric Sprott:

Absolutely, yes. We might be in it now. There are certainly lots of signs that there is not much robustness in the U.S. economy. I have some very strong views as to what should ultimately happen in the U.S. My views are predicated on the fact that the government reports a deficit of \$400 billion, but there are also government reports that suggest, on a GAAP accounting basis, that the true deficit in 2003 was \$3.4 trillion. We can all ignore it, and everyone has ignored it. But, the reality is that the liabilities are accruing for Social Security and Medicare in the U.S. at a tremendous rate. There has been no provision for it. There was a paper released by the U.S. Treasury Department about a year ago that said the present value of their obligations, that are not funded, is \$44 trillion. Again, we can choose to believe it or not believe it. I happen to believe it. I made the point that politicians are in it to be re-elected, and they are not dealing with the real issue. The real issue is they are making promises to their citizens that they can't keep. And they're not going to keep them. I would hate to be a retired person or a young person in the U.S. Somebody is going to have to bear the brunt of all these funding issues that haven't been taken care of. Beginning in 2008, the baby boomers start collecting these things. That's a real cash problem. Before, it was just a bookkeeping problem. You'll have a huge influx of people collecting their Social Security and getting free Medicare. It's got to be funded. Anyone who's looked at the problem has agreed that no one has done anything about funding it. You have to cut what your promises were, which is what all the European governments are now trying to do. They're all cutting back on the pension. Most companies are cutting back on them because they can't fund them. The trend is in place here: What we thought we were going to get, we're not going to get it. Am I bearish? Gosh, we've had forty years of living off of savings that were supposed to be saved to provide this future. It was all spent. Everyone just chooses to ignore it.

Disclaimer: Noted in the 2 September Strathmore Minerals Corp (TSX-V: STM) news release, Sprott Asset Management owns approximately 20-percent of Strathmore's issued and outstanding common shares.

Eric Sprott

Founder and Chairman of Sprott Securities Inc., Toronto, one of Canada's consistently top-ranked investment firms.

After earning his designation as a Chartered Accountant, Eric entered the investment industry working in research as well as institutional sales. In 1981, Eric founded Sprott Securities Limited (now Sprott Securities Inc.) which, under Eric's leadership, has become one of the most successful investment firms in Canada.

Eric Sprott has established himself as a clear leader in Canada's investment community. With over 30 years of industry experience, his expertise at making predictions on the market and recognizing investment opportunities with superior growth potential have been proven many times over. His investment abilities are clearly demonstrated by the excellent performance track record of Sprott Managed Accounts, Sprott Canadian Equity Fund and the Sprott Hedge Fund L.P.

At the 2003 graduation, Eric Sprott, President, Sprott Securities Ltd. and Carleton alumnus for whom the Sprott School of Business was named after, was awarded a Doctor of Laws, honoris causa by Carleton University in recognition of an outstanding career as an entrepreneur, investor and philanthropist.

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