

CAMECO'S CIGAR LAKE MINE DROWNING: WHERE WILL U.S. UTILITIES GET URANIUM NOW?

Sprott Market Strategist: Some May Sign \$100 Long-Term Contracts

By James Finch

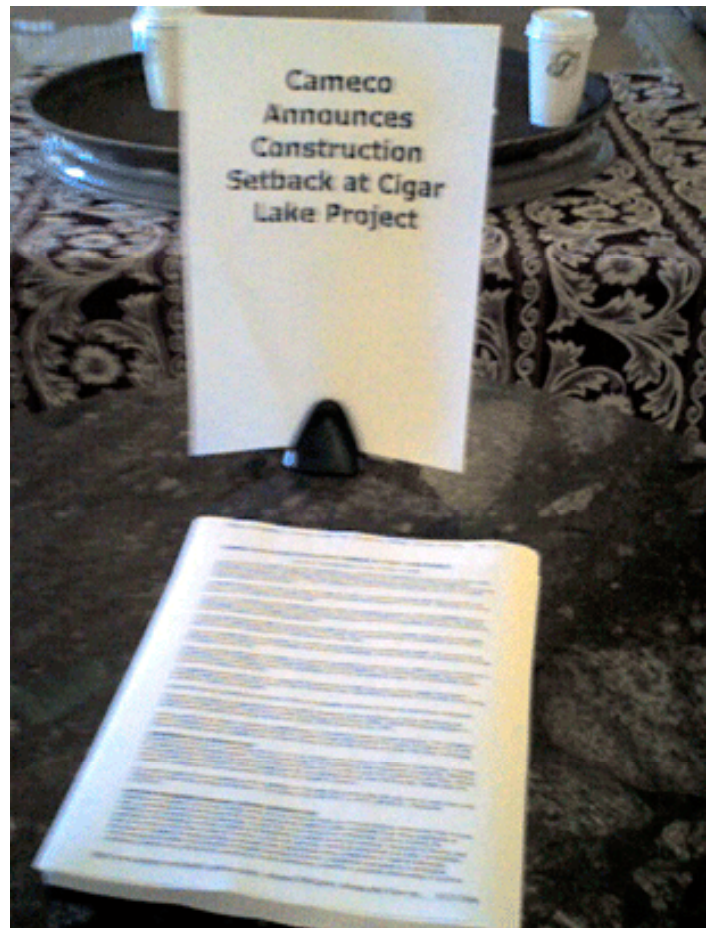
The announcement of water deluging the \$12 billion ore body at the rate of 1,500 cubic meters an hour at the Cigar Lake uranium mine shocked the nuclear industry on Monday. As anyone who closely follows uranium mining stocks now knows, construction at Cameco Corp's half-owned mine in Canada's uranium-rich Athabasca Basin will be delayed by at least one year, possibly much longer. The whole mine was flooded after massive steel doors – reinforced with concrete – could not hold back the water.

One wag joked Cigar Lake should instead be turned into a hydroelectric project. This surprising development means Cigar Lake's heralded supply of 7 million pounds of uranium oxide relieving a very tight uranium market by 2008 is gone. Future supply just got 30 percent tighter than was forecast.

"I wouldn't be surprised if the uranium price gets pushed much higher," Sprott Asset Management Market Strategist Kevin Bambrough told us in a tape-recorded telephone interview. "It should definitely steepen the curve that we've seen. I can't imagine there will be aggressive sellers." During our interview, Bambrough calculated the net asset value of Uranium Participation Corp (TSX: U). "As we speak, UPC is at C\$10.90/share," he said. "For the net asset value at that price, the uranium price would have to be about \$75/pound. That's where the stock market is telling you the price should be. That's where investors think it is going."

U.S. utilities should panic. Less than one month ago, we challenged Rajiv Kundalkar, Vice President of Nuclear Engineering for Florida Power and Light, about Cigar Lake and other significant uranium supply sources at a Platts-sponsored nuclear fuel conference. Bluntly, we asked him if he was aware of the risks at Cigar Lake and elsewhere. Calmly, he answered that he was.

Obviously, Mr. Kundalkar was not. (Hopefully, he is finally reading our new book, "Investing in the Great Uranium Bull Market," which we gifted him.) Neither were a majority of utility fuel managers who failed to honestly appraise the risks involved with their supply sources. Those who neglected to lock up uranium inventory for their reactors through 2011 are now the butt of jokes at the Nuclear Energy Institute's (NEI) annual uranium conference presently in ses-



Cameco's Corp's announcement and flyers at the Quebec City NEI conference before Monday's press conference.

sion in Quebec City, Canada. Many fuel brokers and utility industry consultants emailed or phoned us, over the past six months, announcing they were convinced the uranium price was "too high." Each one sincerely believed Cigar Lake, Kazakhstan and/or Olympic Dam would bring the uranium price back down to earth.



Sprott Asset Management Market Strategist Kevin Bambrough. His super bullish forecasts on uranium are coming to pass. Mr. Bambrough was also a senior contributing editor to "Investing in the Great Uranium Bull Market."

"I still say the uranium price is going to test and exceed the inflation-adjustment highs of the prior peak," Bambrough told us. "I think the (peak of) \$110 to \$120 will get taken out in this market." Is this the super spike we've been waiting for, and will it sustain at higher levels? "We'll have to see how high the spike goes," Bambrough pondered. "I still think some companies are going to be able to sign long-term deals around \$100/pound. I don't think that will be a problem for some to have that opportunity." How Serious

Is the Cigar Lake Supply Problem?

"This is probably going to set Cameco back much more than a year," Bambrough predicted. Last spring, he had speculated in another interview about how the uranium price might be affected if Cigar Lake were delayed more than was then anticipated. "It was supposed to do 18 million pounds a year by 2010," he explained. "We're losing seven million pounds out of 2008. We're probably going to lose another 11 million pounds in 2009."

When will Cameco know they can mine Cigar Lake? "Maybe, it will just be starting in 2010 if they figure it out," Bambrough said. "If they figure out the whole new plan - the problem is you've got to deal with water permits." Because Cameco may have to add a processing facility to be able to handle the increased flow rate, the company may have to apply for new water permits.

"Right now, they're only permitted to process about 500 cubic meters of water an hour," he pointed out. Cameco Chief Executive Jerry Grandey told analysts on Monday the water was flowing at 1500 cubic meters an hour. "Basically, they've got to go and apply for permitting to get processing in place to handle that extra water flow," Bambrough said. "We don't know what the flow rate is ultimately going to be. They don't even know how contaminated the water is going to be and what processing needs to be done. They've got a big water problem to deal with."

All of this will take longer than many expect. "They're going to have to come up with a new plan and a new way to process it," Bambrough predicted. "It's not just about going back and rehabilitating this one area and continuing business as usual. They're going to keep trying to work it. But in

order to work it, they're going to have to de-water it, which means they have to get water permits and put in a facility to process the water."

As uranium and other miners have explained to us, mining is a difficult business. "In almost all metals, mining is being pushed to the limit," Bambrough observed. "When you push things to the limit, when you push equipment to the limit and you're going into uncharted frontiers, in terms of new depths in mining and new techniques, you're going to run into problems."

Can Cigar Lake be mined at all? "I think it will be somewhat mineable at some price, obviously at a higher cost," Bambrough told us. "There's no way to tell how long things will be delayed and what the ultimate cost will be. As you push things out a number of years, I wouldn't be surprised if the capital expenditures double by the time this gets brought on, just because of the time element. You've already got that money sitting there costing you money by producing later, for example the interest on the debt. Then, there are the new measures to be put in place to handle the new mining method." Bambrough predicted the capital expenditures per pound would definitely double.

And Other Supply Sources for U.S. Utilities?

Will this force U.S. utilities out of their complacency regarding having a reliable source of uranium supply to power the country's 103 nuclear reactors? "I think so," Bambrough speculated. "It's hard to say who's going to get the forces majeures. A 'force majeure' is a clause in a commercial contract covering natural disasters, such as a flood, excusing the party from performing its obligations under the contract. "A lot of the forces majeures are probably going to the U.S," he said. "The utilities were confident in the 18 million pounds to be coming out of Cigar Lake. They aren't going to get this uranium. The question is: 'Where are they going to get it?'"

We talked about Kazakhstan. "Russia locked up Kazakhstan's big orebody a couple of weeks ago on the agreement to build processing facilities and nuclear plants," Bambrough pointed out. "I think that is very significant. The Western World was counting on getting a lot of that supply. I think we can clearly see now that is going to be Russian-controlled supply I expect they will want to pair with their new reactor orders for both domestic and abroad."

And Olympic Dam? "To put in the Olympic Dam expansion, they would have to put in a desalination plant," Bambrough warned. "They already use all the local water resources to begin with. I think they'll have to build more desalination plants, which requires more power." He believes the Cigar Lake flooding may drive the uranium price high enough to make the massive capital expenditures required for Olympic Dam to move the expansion plans forward. "It may cost between seven and ten billion dollars," Bambrough said.



Located in northern Saskatchewan (Canada), Cigar Lake is the world's largest undeveloped uranium deposit. The uranium mining project is now submerged in flood waters. Courtesy of Cameco Corp.

Finding an immediate supply source will become a serious challenge for American utilities. "The delays at Cigar Lake will create a sense of urgency for the next few years," Bambrough told us. "It's almost the equivalent of the oil industry losing Saudi Arabia. The utilities lost what amounts to 10 percent of consumption."

What about the emerging U.S. uranium mining industry? "It's tough to get production up to 18 million pounds any time soon," he responded. But Bambrough added, "Unless they start fast-tracking all the permitting, which is what I think is going to have to happen."

For Cameco Corp, it was Black Monday, but for many uranium juniors it was Green Monday. As Cameco shares tumbled by nearly 10 percent trading on the Big Board, junior uranium companies such as SXR Uranium One, Energy Metals and UR-Energy shares jumped between 14 and 19 percent on the Toronto stock exchange.

We asked Bambrough about the companies which would benefit the most by the Cigar Lake delays. "I think that the ones which have been more criticized and more marginal stand to gain the most. The lowest-cost producers won't gain as much. The near-term producers stand to really gain. The closer you are to production, you stand to gain more." This past Friday, one of our favorite stock analysts, Bart Jaworski

of Raymond James Canada, issued two strong buy recommendations on junior uranium mining stocks: Strathmore Minerals and Energy Metals Corporation. We've previously written about both companies, in which Spratt Asset Management has significant percentage positions, and we interviewed the president of the former in yesterday's article.

Hopefully, U.S. utilities will heed our advice, and utility spokesmen, such as Mr. Kundalkar of Florida Power and Light will take our questions seriously, during our future chats. In the meantime, this weekend and next should be interesting when TradeTech issues the spot uranium price.

**Websites and Trading Symbols
of companies mentioned in this report:**

Energy Metals	TSX: EMC	www.energymetalscorp.com
Strathmore Minerals	TSX: STM	www.strathmoreminerals.com
SXR Uranium One	TSX: SXR	www.uranium1.com
UR-Energy	TSX: URE	www.ur-energy.com
Uranium Participation Corp	TSX: U	www.uraniumparticipation.com

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